

Essity Aktiebolag (publ) Interim Report Q1 2018
Moderator: Magnus Groth
April 27, 2018
10:00 a.m. CET

Josephine Edwall-Björklund: Hello, and welcome to Essity's Q1 Interim Report for 2018. I'm Josephine Edwall-Björklund, Head of Communications for Essity.

And today, our President and CEO Magnus Groth will go through the highlights in the report followed by a Q&A session, where also our CFO Fredrik Rystedt will join. So, with this I hand over to you, Magnus.

SLIDE 3: Summary Q1 2018 – Q1 2018 vs Q1 2017

Magnus Groth: Thank you, Josephine, and good morning.

Organic net sales increased with 3.4 percent, and the adjusted EBITA margin decreased 40 basis points due to significantly higher raw material costs and actually the biggest increase in raw material costs that we have ever seen in any single quarter.

We have been speaking about increasing prices in Europe, Consumer Tissue now for the last couple of quarters and can now confirm that we have achieved price increases in the first quarter that will have an impact starting in the second quarter with full effect in the second half of the year.

We continued with good contribution from efficiency improvements, same level as last year, which we think is a good performance in the first quarter. Typically, this picks up throughout the year. Of course, we had very good savings last year. So, the comparison becomes more and more difficult.

BSN medical performing very well. We are happy with integration work, and we see the synergies coming according to plan.

SLIDE 4: Financial Summary – Q1 2018 vs Q1 2017

Summary overview of the numbers. Net sales increased with 10.9 percent, and BSN medical, of course, has a big contribution here, while the organic net sales also increased with 3.4 percent. Organic net sales are picking up quarter over quarter.

Adjusted EBITA plus 7 percent, also with good support from BSN medical, and organic adjusted EBITA was down 5 percent. However, just the raw material impact was minus 26 percent. Through cost savings, mix

improvements, volume growth, we have been able to compensate for a large part of this raw material headwind, but not fully.

Adjusted EBITA margin as a consequence was down 40 basis points to 11.1 percent.

Operating cash flow is in line with what we have seen the last couple of years in the first quarter, with the exception of last year, when we had a much higher operating cash flow. At that time, we made it clear that that was a one-time positive development of working capital. This operating cash flow is very much in line with our plans and expectations.

SLIDE 5: Financial Summary – Q1 2018

Looking then more at the balance sheet, the adjusted return on capital employed was 11.9 percent, and adjusted earnings per share 2.61 SEK, with BSN medical contributing positively to earnings per share again, as we stated at the time of the acquisition.

We see that BSN medical is contributing positively actually in all lines of our P&L and balance sheet.

SLIDE 6: Net Sales – Q1 2018 vs Q1 2017

The organic net sales had support, both from price/mix and volume. This is something that's a change from previous quarters.

We are happy about that development, even though price/mix is the smaller part in this quarter. We could see a positive price/mix in Consumer Tissue in Asia and in Professional Hygiene that contributed well also Latin America to a smaller extent; while volume developed well in many of our areas, but I'd like to point out Personal Care, where we had an excellent volume development.

And again, you can see how BSN medical is contributing there to our growth.

SLIDE 7: Adjusted EBITA – Q1 2018 vs Q1 2017

In the EBITA waterfall, the raw material a big red box I think is what really stands out here and if it hadn't been for a positive currency impact, this would have been a negative of over SEK 1 billion. So, the actual raw material impact is much bigger.

In this amount of SEK 755 million, we have a negative impact in all raw materials, so not only pulp and fluff pulp, but also recycled fibers and oil-based materials, so in all areas.

And again, cost savings are in line with our expectations. It's a good start of the year when it comes to savings.

SLIDE 8: Raw Material Development

Raw material development compared to one year ago. Of course, this is shown in the picture. And maybe more importantly is that we always give an outlook for the coming quarter, second quarter this year.

As before, for all our three business areas, we expect to see significantly higher raw material costs, both quarter over last year's quarter and sequentially over quarter four. So, the development continues in this area.

SLIDE 9: Innovation for People and Nature – Q1 2018

Innovations, four innovations, which is typically the pace we had in the first quarter, where we don't have that many product launches. Typically, we have most launches during the second and third quarters in the year.

I would like to focus on Lotus Moltonel. We believe that this is a breakthrough. The consumer insight is that it's an effort to keep my home in order. That's the insight.

And one of the efforts is that toilet tissue typically has a tube inside. But this product Lotus Moltonel, and we have it here. There have been tubeless products before, but this is the first one where actually it really works so that it's easy to put it on the holder, and it's also the first where you can use it until the last sheet.

A very nice innovation that we've been working with for several years and that we're quite optimistic about. Of course, then it takes time before innovations like this, really have a big impact on the overall numbers, but showing that also in Consumer Tissue there are things to do and improvement opportunities. That's one important innovation this quarter.

SLIDE 10: Personal Care – Q1 2018 vs Q1 2017

Briefly about the three different business areas, starting with Personal Care.

Organic net sales developed very positively, 4.5 percent, and equally from emerging and mature markets.

We had a positive volume impact of 5.9 percent, continued price pressure leading to a negative price/mix of 1.4 percent. This price pressure we see very much in Incontinence Care, but in most categories, actually also in Baby Care.

As you can see here from the bars, organic net sales were positive in all the different segments here.

Adjusted EBITA margin is down with 30 basis points to 14.2 percent, but also in Personal Care, we had headwinds from raw materials. The impact overall was minus 150 basis points. So again, we were able to mitigate the significant part of that but not all.

BSN medical integration and synergies according to plan. In the quarter, we had a higher adjusted EBITA margin in BSN medical than last year. This is part of now our integration work. As always, we are looking for value creating growth so that, if we have areas with less value creation, we focus on fixing that before volume. I think that's what you see in the quarter for BSN medical, so a good performance.

And continued price pressure in most of the categories. No change here and no let up in spite of higher raw material costs.

SLIDE 11: Consumer Tissue – Q1 2018 vs Q1 2017

Consumer Tissue, where organic net sales really turned the corner and was positive 3.9 percent and, again, both contributions from mature and emerging markets and from volume and price/mix in the quarter.

Adjusted EBITA margin is down with 220 basis points to 8.8 percent. Again, the negative impact from raw materials, which has the highest impact in Consumer Tissue, was minus 490 basis points, so a massive impact here.

We were able to compensate this in numerous ways, higher prices in Asia and Latin America, higher sales in Europe due to higher volumes and mix. Of course, this also contributes to supporting the margin, even though we had lower prices which are rolling over from price decreases that we took a year ago.

We did, and I can again confirm, achieve price increases in Europe that will have an impact starting in quarter two, but with full impact in the second half of the year.

Good contributions from cost savings, and in this case, a combination of ongoing cost-saving initiatives, but also very much the further restructurings that we have announced and that I'm sure you've seen in different press releases regarding Chile and Spain, for instance, following Tissue Roadmap. We are aggressively pursuing those objectives and following this Tissue Roadmap and accelerating our activities in a response to the difficult market environment.

SLIDE 12: Professional Hygiene – Q1 2018 vs Q1 2017

Professional Hygiene, had a slight organic sales increase of 0.4 percent. As you can see from the bars, all of this comes from emerging markets, which continues to really develop in a good way.

We've found a working formula there, while in mature markets, we had a negative growth of 2.1 percent.

EBITA margin, on the other hand, increased in this business area, and of course, there's a connection here.

We had lower volumes, especially in North America. We have been quite ambitious in our price increase initiatives, across the business, but also in Professional Hygiene. And maybe in North America we were over-ambitious which led to a negative volume impact and we are working now to correct that in the coming quarters.

But again, we prioritize profitable growth. And sometimes, this could be the outcome of such activities.

As you can see there in the next bullet, we did achieve higher prices in North America and a better mix both in North America and in Western Europe.

And also, for Professional Hygiene, we have announced restructuring efforts according to Tissue Roadmap specifically to create a napkin center in Europe, which gives the possibility also to streamline and increase efficiency in numerous sites in Europe in the next year or two. So that's another announcement we made here.

SLIDE 13: Summary Q1 2018 – Q1 2018 vs Q1 2017

To summarize we had an improvement in top line in a very challenging market, very tough market conditions, both from an overall growth perspective, but also competitive perspective.

We were able to mitigate a large part of cost headwinds, mostly coming from raw materials.

We have achieved price increases in Consumer Tissue in Europe, as we have previously been talking about, but that we can now confirm.

BSN medical is developing in a good way.

That was the summary. Thank you for listening.

SLIDE 14: Q&A

Josephine Edwall-Björklund: Then let's open up the Q&A session and welcome on stage our CFO, Fredrik Rystedt.

Mikael Jåfs (Kepler Cheuvreux): Two questions. The first one is around the Tissue Roadmap that you mentioned. We've heard a lot about it, but could you please try to explain a little bit to us how far are you on this travel, beginning, middle, end? I know it's very difficult to give sort of super detailed answers, but just for us to get an understanding.

And the other question would be around the organic sales growth in Incontinence Products. Seems like you've lost some price there, if you could describe the competitive situation?

Fredrik Rystedt: I'll start with the Tissue Roadmap. It is really difficult because if we talk about Tissue Roadmap, as you know, we have three different parts.

So, the first one is perhaps what you see the most is the restructuring part, where we leave inefficient production, typically small plants and non-integrated and in perhaps the wrong locations. The other part relates to more the efficiency gains in every plant. Then, we also have a third part, which is the more structural part.

If you take the first one, the restructuring, we have done a lot as you know. We have shut down many different facilities, many different paper machines. I think it's fair to say that we've come a very long way in that restructuring part. But if you take the efficiency, which is part of getting all the plants up to a higher level, then we still have a long way to go.

We have actually come to a good part. If you look at the savings here, the SEK 230 million, just in that part, product cost fixed is a significant portion.

And of course, that comes from these activities. But we have a long way still to go. We've come a long way, but lots of stuff to do in the coming years.

Magnus Groth: In Incontinence Care we speak sometimes about tender balance. Where we've tried to talk less about it in Incontinence Care in health care. Actually, we've had an improvement here over the last one or two quarters, as we've also communicated, which means that we have been able to gain some tenders and thereby grow volumes.

We're also doing well in retail, especially in Europe, and actually regaining some market share, which is also according to our plan. I guess, in your question, I understood that, have we then taken volume while giving away price.

This is not our perception. Markets are still very competitive. The volumes we are gaining are at margins that we are happy with. We're not chasing volumes per se anywhere. It has to be value creating. But the markets are very competitive.

Mikael Jåfs: Thank you.

Stellan Hellström (Nordea): I'm wondering whether the price increases in Europe that you have achieved on Consumer Tissue will be enough to compensate the raw material headwind and maybe especially given that we've seen continued increase in pulp prices.

Fredrik Rystedt: We never give a margin forecast, and I guess that's what you're asking. So of course, as pulp prices gradually have continued to increase, it remains a challenging price-cost situation in Consumer Tissue.

Time will tell. Of course, we'll continue to work on the pricing situation. We have achieved a lot, but it's obvious that pulp prices have continued to increase as well. So, we will continue.

Magnus Groth: Maybe the only comment to add is that there is a strong momentum for price increases in the entire market because of these incredibly high raw material costs that we are seeing. If there would be a need for further price increases, there is a momentum currently in the market.

Stellan Hellström: All right. And on that note and that you've probably then pushed for price increases that you feel are sort of going the same direction in the overall market.

Seems that you maybe have lost some market share in the previous quarters, whereas in this quarter, you had a good volume development in mature markets in Consumer Tissue. Any reflections on that or any reason why that would look different in the coming quarters?

Magnus Groth: Overall, we are following our strategy to focus on our branded assortment and growing that part on our Consumer Tissue business in Europe, while then being very firm on margins when it comes to private label.

And when you see the restructuring we are doing, this is mostly supply that has been provided to either as mother reels or as private label volumes. We continue to have that focus. And then where that ends up overall, we only see as a consequence in the coming quarters.

Fredrik Rystedt: Maybe to add also, you will remember from last year that prices actually came down, and we perceived that many players on especially the European market were very aggressive on the anticipation of lower pulp prices. And of course, it has become pretty obvious that that has not happened, on the contrary, cost on pulp continues to increase.

So, it's been very obvious that other players have had a need to increase prices as well. And of course, that makes I think the whole market having the same need. And therefore, the loss to our own volumes becomes less problematic. We can compete much better.

Stellan Hellström: OK. Another price-related question here would be to Professional Hygiene in North America. The price increase that you announced, how do you feel about that, maybe given that you also saw quite weak volumes here in Q1?

Magnus Groth: We're always trying to balance price and volume, and the impact was quite significant on volume in this quarter. And of course, we're looking at finding another balance going forward to regain some volumes. But always, this has to be profitable contributing volumes that we gain.

Stellan Hellström: OK. But did that price increase come through then?

Magnus Groth: Yes, as you can see in the margin improvement also quarter over last year's quarter of 110 basis points, this has had a positive impact on margins, absolutely.

Stellan Hellström: Very well. Finally, just on the cost-saving side here, you achieved quite a lot of savings in this quarter, and you say, maybe tough comps here. Anything unusual in this quarter you expect? Could we expect something similar in the coming quarters?

Fredrik Rystedt: No, we were very pleased with the development, as I mentioned earlier. We had a good development in the factory efficiency or the production cost. We had good development in pretty much all areas.

We had slightly less savings as compared to previous quarters on the pure sort of negotiation or the purchasing part, which is quite natural in very tough situations like we see on the pulp market. But generally, we are very pleased with the level we have achieved in this quarter.

Stellan Hellström: All right. Thank you.

Peter Testa (One Investments): I was just trying to understand a bit more on your comment on currency and also maybe wrapping up also the past comments on rebates from suppliers.

I'm just trying to understand, with the continuing increasing pulp price, but a flatter slope, and the currency, the krona going the other way versus the dollar in particular. Can you give some sort of view of how those might influence differently going forward versus what you experienced in Q1?

Fredrik Rystedt: I'm not sure I fully understood the question.

Peter Testa: There are two questions, if you like. You mentioned the material costs would've been much higher if the currency had been neutral. Currency has moved a bit the other way now. You also in the past have talked about in the cost savings have been supplier rebates as befits your strong purchasing position.

But the slope of the curve of pulp is flattening, and whether those rebates are also flattening.

Just trying to understand how these other factors might affect the material cost.

Fredrik Rystedt: It's just what we call the currency transaction effect because we purchase a lot of our pulp, of course, in the European market. So, when the dollar gets weaker to the euro, that means that that's our benefit. If we would've had a

constant US dollar or euro-US dollar rate, then of course, our raw material cost would not have been SEK 755 million, but rather a bit over SEK 1 billion. This was the comment previously. If the dollar would strengthen again versus the euro, that would have an adverse impact. But this is something we cannot anticipate better than you can.

If you look at then the discount or the rebate, the way we calculate this is that, in savings, we would just include additional discounts or more favorable purchase prices that we can achieve. And the ability to get more or favorable discounts is subject to many different things, first of all, just pure negotiation power; and the second thing would be typically if we qualify more suppliers for our machines and equipment.

We expect to continue to be able to generate better purchasing conditions or purchasing prices. The only comment there was that, in a very squeezed or tough pulp supply situation, getting additional discounts or the purchasing power simply becomes weaker.

This is basically what you have seen now in Q1 '18 versus Q4 '17 and Q3 '17 that we have slightly less gains on additional purchasing prices. And the future is difficult to forecast here.

Peter Testa: OK. Thank you. You mentioned on Personal Care that it's a tough pricing environment, but you're launching products, and now you have price increases on material cost.

Can you give some sort of thoughts as to whether you think your commercial initiatives can manage that more strongly in future quarters than we saw in Q1 '18 or whether we should keep an eye on this?

Magnus Groth: Absolutely. Talking about Personal Care, I actually talked about the Baby Care, Incontinence Products, Feminine Care rather than BSN medical, where we don't see the same price pressure as in what we previously used to call Personal Care.

Innovation remains key absolutely, and we have a very strong innovation pipeline going forward also this year. This is the only way really to build strong brands and have a healthy margin in the long term. We feel very confident that we'll continue to improve in that area in all our Personal Care categories.

Peter Testa: I guess my question was whether you think this is going to be strong enough to improve the underlying margin performance through the year versus what we saw in Q1 '18.

Magnus Groth: We're working, pulling all the levers to improve our margins, so innovation, price increases, cost savings, material rationalization, everything we can do to improve margins, growth, of course, which contributes to fixed cost coverage. We're working with all these different areas to improve our margins going forward.

Peter Testa: OK. My last question is just on BSN medical. You talked about quality of profitable growth and BSN medical organic was flattish in the quarter.

If you look at what you're doing to try to manage the ranges, can you give some sort of sense as to how you think that works through, i.e. some underlying growth in the core products you want to push versus those which you are kind of working on?

Magnus Groth: Now after a year, we have a very good understanding of BSN medical and a very good level of integration and transparency. The new organization is up and running. What we see is that, as always and as we've also seen in the rest of Essity, there are some product and regional combinations that are underperforming and that we are addressing also in BSN medical.

And of course, there is a bigger opportunity initially in an integration process than later. The impact that you're seeing comes from addressing these different not only underperforming products, but also underperforming regions or countries.

Peter Testa: OK. Thank you very much.

Linus Larsson (SEB): I wonder if you could please expand a bit more on Consumer Tissue pricing. You said that you do see generally in the market a strong price momentum, you had a good year-on-year price/mix impact already in the first quarter.

My first question is, could you please break that 2.0 percent figure down just a little bit for us? How much is mix, and how much is price hikes of that 2.0 percent improvement in the first quarter?

Magnus Groth: In the first quarter, a large portion is from Asia and from Professional Hygiene and only a small part from Europe, where we still in the first quarter had a

negative price/mix impact, but a good volume development. I guess that's the breakdown that I can provide.

Linus Larsson: Excellent. Price/mix in Europe in Consumer Tissue was negative in Q1 still?

Magnus Groth: Yes.

Linus Larsson: Excellent. That's very helpful. Could you in any way guide us as to the second quarter price improvement that you're seeing? It sounds as a large part is rather coming through in the third quarter. Could you in any way help us understanding the magnitudes of what's coming through in Q2'18 and Q3'18, please?

Magnus Groth: No, not really. I can only reiterate what we have stated now for the last two or three quarters that we expect to see positive impact from price increases in Consumer Tissue Europe fully in the second half of the year, but with a gradual improvement from the second quarter. We don't have more information to give in this area.

Linus Larsson: OK. That's fair enough. Then just finally, on a more general note, on organic growth, which started really well in the first quarter. In a way, comps were still tough in the first quarter, and they will ease in the second quarter. As the year progresses, should we expect an acceleration of group organic growth from what we've seen in the first quarter, do you think?

Magnus Groth: We don't give those kinds of forecasts. I can't answer that question, and the market remains very competitive, so can't really comment on that.

As we've stated many times before, our growth really comes from volume, price and mix, and it's only when we have contributions from all those three components is when we really see numbers like in this quarter. But again, it's a challenging market. So, we cannot give any forecast in this.

Linus Larsson: If I ask the question somewhat differently, when you look at the first quarter and you take into account facing of various campaigning activities and so forth, what's the timing of those? Was Q1'18 a particular favorable quarter in the sense of harvesting on marketing activities, or is that rather later in this year do you think?

Magnus Groth: Again, I can't really comment on that. What you can see in the report is that Vinda had a very strong growth in the quarter and that this has a strong contribution, of course, also to the Essity overall growth.

Fredrik Rystedt: It's very difficult to give that forecast, Linus. I think we were very happy with the growth that we've seen here in Q1 '18. We had talked about before, the exits that we had last year that are now largely out of the system. So, the Q1 '18 growth was also assisted by that favorable comp, as you referred to previously.

And most of those impacts are out there. So as Magnus said, we will have some help with the price increases as we go forward and as we have talked about that will be beneficial.

We hope to maintain a good mix. And hopefully, the volumes will also be there. But recognizing all of those issues, Q1 '18 was very strong, especially in Asia. I think it's very difficult to give more than that.

Linus Larsson: Thank you very much

Ian Wood (Redburn): If I could just get started with what's going on in Consumer Tissue. This quarter, you are talking about some pricing coming through in Europe, but it feels like that's been a bit delayed compared to historically how long it would take you to achieve pricing.

I know you've talked in the past about the expectation for pulp to come down and why that delayed pricing. Are you confident that that was the only real delay, and that was why it took longer, or do you think there's some change in the dynamic, and in the future, there would be a bit of a delay as well?

Magnus Groth: That was part of the explanation. But other reasons for the delay was the very competitive climate in retail and, thirdly, also that there were some new capacities actually coming into the markets, especially in Europe. So, all of that contributed to making it more difficult to get pricing.

We still see two of these factors, so tough competitive environment and some additional capacity, even though there's nothing new really to announce. But there are still some plants or machines that are being started up.

Nothing new, but those two kind of negative impacts still remain this year. But with the current pulp-price conditions, everybody needs to work on their margins through pricing.

Ian Wood: When you think about the absolute price level of tissue in Europe and in some of your other markets, I appreciate the year-over-year price/mix may start turning positive in the next few quarters.

But thinking about the absolute, if you were to enter a market where pulp did keep growing higher over the next few years, do you think consumers and end-customers would be able to take continued price increases over the next few years, or do you not think the market is strong enough for that environment?

Magnus Groth: That's a hypothetical question and impossible to answer. But I feel very confident and also with the innovation we're doing and, of course, cost savings that mitigate the need for price increases and so on that we will be able to work on improving our margins also going forward.

And actually, it is almost better from a market perspective when everyone has the same view or outlook on the future, whether that is that prices are going up or down or stable. But looking back, and we spent a lot of time looking back, and I'll ask Fredrik to elaborate on this. We have looked at the pulp cycles.

Fredrik Rystedt: Yes, Ian, you started with this expression that it's taken slightly longer. If you look back very long back in history, almost back 20, 30 years, you can see that we've had these cycles.

There's been periods where both prices have been coming down and raw material costs have been coming up, which is very negative. We saw that in 2017. And there's also been periods where prices have been coming up and raw material been coming down.

We have been in what we refer to I think last time we are at the bottom or at the negative part of the pulp cycle, if we put it that way, or consumer cycle. Yes, it's been a very challenging year. It's been also a challenging quarter in that respect. But when pulp prices come down, we also benefit. Then we have much higher profitability because prices remain relatively stable on our products, and costs come down then, we benefit.

So, there is a certain cyclicity in pricing and cost. And right now, we have a challenging position, but there's also been, for instance, in 2016, where the situation was quite the opposite.

I think, from the longer perspective over time, the important thing for us as a company is that we gradually increase the underlying profitability or the structural profitability of the Consumer Tissue business. And that's what we

do with Tissue Roadmap, with innovation and all the other stuff. I think we feel very confident that we're still on that path.

Ian Wood: That's very interesting. I guess the restructuring that you've been putting in, about SEK 1 billion this year across a few places, is aimed at that. I wonder if you had any comments on what your competitors are doing, if they're taking similar actions to you to improve the structural profitability of their businesses or if you don't really see that.

Magnus Groth: We have seen announcements from our biggest competitor. I think that's it. Other than that, we typically don't comment on competitors' behavior from that perspective.

Ian Wood: Fair enough. Thanks a lot.

John Ennis (Goldman Sachs): I'll just speak to one on Incontinence Products. So, going back to the 5 percent growth you did in that division, I just wondered if you could break down the growth between retail and health care because I think you cited price/mix pressure and I just wanted to get a sense of where the price/mix decline in Personal Care is more mix led than price and what your view was for the overall market pricing dynamic, given input inflation.

Magnus Groth: We actually have positive price/mix in all our different segments and categories, while the very good number in Incontinence Products primarily comes from volume definitely. And I think we also have a good mix development, while pricing remains a challenge, which has been the case for many years, and typically, we have compensated this with improving our efficiencies.

The last couple of years, pricing pressure has intensified. However, we are announcing as we are seeing higher raw material costs also in this segment, we expect this to gradually change going forward.

Also, with innovation that we see coming, we believe that we would be able to mitigate some of this pressure. We had a good growth momentum, both in health care and in retail, which we're happy about, especially in Europe and in emerging markets, maybe slightly lower but still positive in North America.

John Ennis: Ok. Thank you.

Iain Simpson (Société Générale): I'm just slightly surprised to see that negative pricing in Personal Care, given the input cost picture there. I would've thought that might've been a little bit easier.

So, are you able to give us any sense as to by category what Personal Care pricing looks like in Incontinence Care, Baby Care and Feminine Care and also whether you're seeing any changes in that kind of competitive landscape there and whether you anticipate price remaining negative for the rest of the year. Thank you.

Fredrik Rystedt: We don't give those details specifically, but we've had a price pressure basically on all of those categories. But we never sort of give the individual numbers for those categories. It's difficult to answer your question.

Iain Simpson: If you don't want to give absolute numbers, would I be right in assuming that the pricing is worse in Baby Care? Because that seems to be what your competitors are calling out as the most competitive category.

Magnus Groth: Could be a plausible theory.

Iain Simpson: Thank you.

Sanath Sudarsan (Morgan Stanley): Two quick questions from me. One is, can you give us some color on your market share evolution across categories over the past few quarters?

And secondly, how do you see the development of volume and pricing over 2018? Mostly Q1 '18, you've demonstrated a lot of volume growth, but you're taking pricing throughout the year. So how do you see the mix of that evolving through the year?

And do you see 3.4 percent like-for-like to deliver sustainable through the year? Thank you.

Magnus Groth: In general, we've had a positive development on market shares in the quarter and in the areas where we have focused, so a good development there and, again, according to our priorities, where we are prioritizing our strong brands over private label. In general, a good development.

Fredrik Rystedt: Volume and mix. I think your question was more, can we retain the volume? We don't provide forecasts on our organic growth, as you know. We have a long-term target to be over 3 percent. So that's the only guidance that we give.

We're very pleased with the volume development. We typically have a positive mix. In this quarter, we've had a positive mix in all of our categories. We're very pleased with that. And hopefully, we'll be able to continue that with innovation.

The only I think really uncertain issue is basically the pricing. As we've talked about now, we have raised prices, or we will increase prices in the Consumer Tissue business area. Personal Care is, of course, more uncertain. But we'll see as we progress in the year.

Sanath Sudarsan: Thanks, Fredrik. Magnus, can I just push you a bit on the evolution by category, if you can just give us some nuances around the evolution within Personal Care: Baby Care, Feminine Care, Incontinence Care and then Consumer Tissue, please?

Magnus Groth: As I said, it's actually positive in most areas and especially in our branded assortment. I don't have really any more detail to give there in that respect.

Fredrik Rystedt: We made the comment earlier. Maybe as just a repetition then, I think Magnus said that, in the quarter for Consumer Tissue, of course, we still had a negative price development in the European market.

The price declines of last year, are still in the numbers. Q1 '18 is negative from that perspective and then we have raised prices. That will have effect later gradually in the year.

We have already raised prices significantly in Asia, and we've also done that in Latin America. This is the evolution so far. We'll see a more positive pricing development in Consumer Tissue as we go forward.

Sanath Sudarsan: Thank you guys.

Rosie Edwards (Berenberg): Just two clarification points really. Firstly, on the rebates within the cost savings, when you account for them, is it done versus the prior year or versus the prior quarter?

Fredrik Rystedt: It's just additional. So, let's just use a very theoretical number. Let's just say we have 5 percent discount in any given quarter. And if we have 5 percent discount in the next quarter, the savings would be zero. So, this is only the additional benefit that we're able to create.

Rosie Edwards: But is that versus the previous quarter? So, in Q1 '18, you'd be comparing it to Q4 '17, or are you comparing it to Q1'17?

Fredrik Rystedt: Exactly. It's Q1 '18 compared to Q1 '17.

Rosie Edwards: So, you're still getting additional savings even versus the second half of 2017, when obviously you had a pretty good level of rebates anyway.

Fredrik Rystedt: Yes, of course. This is compared to Q1 '17. So, we will live with that as a comparable, so to speak.

Rosie Edwards: OK. Sorry, so you're getting savings versus Q1'17.

Fredrik Rystedt: Yes, exactly. As I mentioned, the negotiation savings that we have within that SEK 232 million is compared with Q1 '17.

Rosie Edwards: Right. So that's what you meant by the comps getting tougher, i.e. in the second half of 2018. You'll be comparing the second half of 2017.

Fredrik Rystedt: Exactly.

Rosie Edwards: Got it. Just on BSN medical, you started addressing underperforming products and regions. Am I right you're actually sort of discontinuing SKUs in parts of the businesses? Is that part of the reason? Is that a headwind to a like-for-like?

Magnus Groth: We're not discontinuing any geographies. We're working with assortment. And there's a huge assortment, which is good as a starting point, but we see efficiency opportunities there.

We're not really kind of leaving any significant regions or product areas. It's more trying to improve the performance. If I refer to Cure or Kill, typically, of course, we're able to cure most of the addressable products and regions. This is what we're aiming to do also in BSN medical.

Rosie Edwards: OK. So, it's not like in sort of what we've seen in Consumer Tissue and, say, Professional Hygiene, where you've kind of actually been pulling back on capacity. OK.

Magnus Groth: Not at all. Probably to the contrary, because it's interesting with BSN medical. They have a significant fixed cost not only in their supply chain, but also in

their salesforce. So, growth is a very healthy way of also improving margins, which is somewhat different from some of our other categories.

Growth is very important going forward. But of course, also in BSN medical, we need to grow in the right areas and with the right products.

Rosie Edwards: Sure, OK. Thank you.

Guillaume Delmas (BAML): A couple of questions for you. The first one is on your performance in mature markets for Consumer Tissue because there has been a significant improvement in organic sales growth in the first quarter. You've got positive 1.5 percent organic sales growth. And that comes after more than 4 quarters of negative organic sales growth. You've just said that it was not price/mix, given that price/mix was negative. So, it does imply a very strong rebound in volume growth in mature markets for Consumer Tissue.

Anything unusual driving this? And I'm thinking any trade loading ahead of the announced price increases there that maybe have helped the Q1 '18 performance.

And my second question is on the Personal Care division. I get that negative price/mix and raw material inflation were significant headwinds, but should we also see the margin contraction in Q1 '18 as a function of Cure or Kill for that particular division delivering a little bit less sequentially because you've now annualized the discontinuation of Mexico and India?

Magnus Groth: That's correct. We have a very good development on our branded volumes in Europe. And I am not aware of any kind of pre-buying. This is typically not the case in retail.

We send full trucks to many supermarkets. And of course, there's no kind of loading there. This is not what we're expecting. We were subject in the last one or two quarters of last year to actually also boycotts during the negotiations that we were in, which had a significant negative impact on our volumes.

We're out of that now. And that has helped us also comparatively to previous quarters in Consumer Tissue in Europe. But volume development is good, in line with our strategy and expectations.

Fredrik Rystedt: You are asking about Mexico and the exits there. I didn't actually fully understand the question.

Guillaume Delmas: It was much more about the Cure or Kill contributing maybe less in Q1 2018 as far as the Personal Care division is concerned compared to 2017 because now you have the benefit in your base that you've discontinued less profitable operations in India and in Mexico.

Fredrik Rystedt: Yes. Cure or Kill was not just India and Mexico. It is a large set of different things, primarily *Cure*. So, the *Kill* part was actually quite small in percentage of the sales addressed, so to speak.

But you're right. In comparison, Q1 2018, there is less additional contribution. That has not contributed to lower margins. It just has not contributed to much more additional margins, if I put it that way.

Guillaume Delmas: Very clear. Thank you.

Niklas Ekman (Carnegie): Just one follow up here on raw material prices, where you said in the presentation earlier that you saw for Q2'18 raw material prices rising significantly, both year-over-year and sequentially.

And I was just wondering when you look at the year-over-year effect, it should be a lot smaller compared to what you've seen here in Q1'18 and then maybe more back to the year-over-year increases you've seen in Q3'17 and Q4'17 and also with a big difference that you have the ability for price hikes in Q2'18 that you haven't had in Q1'18.

I'm just wondering if I've misunderstood anything or if you could elaborate a bit on the actual year-over-year effect.

Magnus Groth: Well, since most raw material prices has continued up during the first quarter of this year, the impact will still be significant, not only sequentially, but also quarter over last year's quarter. That's the guidance that we give.

Niklas Ekman: I was just curious. Looking at the year-over-year effect, it should be at least smaller based on the current spot prices that you've kind of past the trough now at least in terms of these effects. Is there any way you can elaborate on that effect for Q2'18?

Magnus Groth: Can't really elaborate on that. It's significantly higher is what we see and what we expect in all our segments.

Fredrik Rystedt: A couple of maybe additional comments because Magnus mentioned that previously this is in all three business areas. What we see is increases and continued, as you saw on the slide, on pulp. And we also see that in oil-based raw materials. So of course, we continue to see a negative trend.

And in addition, we also have a time-lag for our purchases. So, as Magnus said, the impact both sequentially and Q-on-Q will be significantly worse. But of course, the absolute number we'll come back to when we present next time.

Niklas Ekman: OK, thanks very much.

Karri Rinta (Handelsbanken): Yes, just a few quick ones. Firstly, on the minority interest, which was a bit higher in the first quarter than previously. Is that all Vinda, or is there something else there as well?

And then secondly, the recycled fiber prices in the US, what's driving this sort of divergence that the US prices are up, while the European prices are down?

Fredrik Rystedt: I can just answer pretty much mostly yes, to your first question.

Magnus Groth: Recycled fiber in the US is again negatively impacted by Chinese authorities again allowing some imports of higher quality recycled fibers into China.

What happened was, as you know, a few quarters ago, China in their country-wide clean-up project decided to ban imports of waste in general. And this included recycled fibers.

This resulted in a much lower recovery of recycled fiber in the US over a period and declining prices for recycled fiber in the US because of this very quick shutdown of demand from exports to China. Then they've slightly opened up again.

I think the US market is still trying to find the balance as volumes are again being shipped over to China, not as before, but still higher quality recycled fibers.

In Europe, I guess there are fluctuations that are always very difficult to anticipate. I don't really have an answer to the development in Europe.

Karri Rinta: OK, that's very helpful. Thank you.

Josephine Edwall-Björklund: OK. So, with this we finalize the Q&A session, and any final words from you, Magnus?

Magnus Groth: I think that we have been talking a lot about this quarter being a very challenging quarter. Many of you have also mentioned today that this combination then of very competitive markets and the higher raw material costs, which is continuing throughout the first quarter this year.

I'm happy to present that we've been able to, again, through self-help, our different programs and other actions, mitigate a lot of the headwinds. And through our more longer-term efforts, like restructuring programs or innovations program and so on, put us in good shape for the future.

Thank you.

Josephine Edwall-Björklund: Thank you for joining, and goodbye.

END