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**Transcript  
Interim Report Q3 2018  
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Joséphine Edwall-Björklund:

Hello. Welcome to Essity's Q3 report press conference 2018.

I'm Joséphine Edwall-Björklund, Head of Communications. And today, our CEO and President, Magnus Groth, will go through the highlights and the report, followed by a Q&A session, where our CFO Fredrik Rystedt will join on stage.

So with this, I hand over to you, Magnus.

Slide 3 – Summary, Q3 2018 vs Q3 2017

Magnus Groth: Thank you, Joséphine. And it's been not only a challenging quarter, but also quite volatile. And as you will hear, there are some trends that we have heard about now for 6 or 7 quarters. I am, of course, referring to raw material costs and other headwinds, challenging market conditions. But this quarter, we also have some impacts on the performance from more temporary in nature that we'll get back to.

But overall, we're able to continue to show higher net sales in all business areas, and this was based on better prices, better mix and we also had cost savings in all 3 business areas. However, this was offset by significantly higher raw material costs, I sound like a broken record again, and this quarter, with over 500 basis points compared to third quarter last year. And in addition, higher energy costs and distribution costs.

Also, in the quarter, we launched 13 innovations. We are as dedicated to improving price/mix and margins to innovation as ever before. And we're very proud also to have been assigned the industry leader in Dow Jones Sustainability Index, which is only one company that actually has this position. So we're very, very proud about that. And it shows that also after the split that now feels quite a long time ago, we've been able to develop and enhance our sustainability profile.

And as you can see here from the numbers, adjusted EBITA margin was down by 240 basis points. So we were not able to compensate for the negative impact of raw materials and other negative impacts. While operating cash flow is the highlight here, which is actually 4 percent stronger than the same quarter last year, and this is thanks to improvements in working capital.

We have presented organic net sales in 2 ways and this is because we hear from you that there's always this question, how much is really organic and how much is if you deduct the restructuring efforts that we're doing, where we're taking out capacity. And over the last 2.5, 3 years, we'd actually taken out almost 10 percent of our production capacity in tissue. And what organic net sales here shows is that the number that we report, 1.6 percent, is including the reduction of sales of mother reels.

We have been a net seller of mother reels, the semifinished products, for many years. But excluding the impact of those restructuring efforts, the underlying growth was 2.5 percent, just for your information. And of course, our ambition is to be close to balanced when it comes to mother reel sales, especially in markets like this when there is a surplus of capacity on the market. And we are close to actually being balanced now, which means that all the tissue that we produce, we also convert and sell as a high-value finished product.

#### Slide 4 – Financial Summary, Q3 2018

And on the balance sheet. Earnings per share is half of last year, but this includes then a high level of restructuring efforts, over SEK 1 billion in the quarter. This is, again, Tissue Roadmap with impact from France and the U.S.,

but also onetime restructuring or write-downs in Asaleo Care, where we have a 36 percent minority stake in Australia.

#### Slide 5 – Profitability-enhancing Measures

We continue relentlessly to work on our profit-enhancing activities, and we are adding more as we go along. And of course, investments in our strong brands is a profit-enhancing activity that we continue with. Price increases, we are done with the first round at the beginning of this year. As you will see this quarter, we have a significant impact of price increases, but still not enough to offset higher raw materials. But it is increasing both sequentially and year over last year.

And going forward, we are already in the next round of price increases for Consumer Tissue. We believe that there will be a significant impact next year and with some also results in this year. But I will get back to our price increase efforts as we go through the 3 different business units.

We're intensifying our efficiency improvements, as can also be seen from some of these restructuring announcements that we've done. And of course, a month ago, 29th of September, we announced another group-wide savings program on top of everything else we're doing. And at that time, we mentioned the number SEK 800 million. We're increasing that to SEK 900 million now that we have 1 month behind us to more detail where we can find these savings. And this is, to its entirety – well, almost its entirety, coming actually from staffing savings so that we feel confident that these are then sustainable savings that we will achieve by the end of next year.

And also today, we have announced an enhanced organizational structure, which means that we will reduce the corporate management team and we are reducing the number of staff functions to become leaner, faster, more operational. I think everyone is doing a fantastic job already. But of course, this is bringing it to another level.

#### Slide 6 – Innovate Bigger Brands, 13 innovations launched in Q3 2018

Innovation. And we have a product here, a very high level of innovations that is the most common product of all in its category in China. And since China is becoming one of the biggest markets, maybe some of you are now looking at

the chart here, which one is it? And it's actually this soft pack product. So almost all tissue in China is sold in this format, in a soft pack, and it's used for multiple purposes. And this is something that we're now launching outside of China, also in Europe. It's going to be very interesting to see what the acceptance is and it's a kind of a multipurpose tissue. So it's very sustainable because you only take one at a time, like this, and it's very convenient. You can put it in different parts of your house for multipurpose use. So this is something that will be exciting going forward.

But again, and as we get back to, in this quarter and in the first quarters of intensive launches, you have more costs, of course, for promotions and for launching the programs than benefits. This takes 9 to 12 months.

#### Slide 7 – Net Sales, Q3 2018 vs Q3 2017

Net sales, back to the numbers, increased by 1.6 percent or 2.4 percent then if we exclude the negative effects from mother reel restructuring. We saw positive price/mix in all areas while volume was negative with 1 percent, and this is completely then relating to Consumer Tissue and primarily to China. So – and this is, of course, not something we're used to.

And when it comes to volumes in China, Vinda, our company in China, has successfully increased prices a number of times and taken the lead, as they should, being the market leader and this has impacted volumes in the medium term. But of course, it's supported margins and now they are working to find a balance between volume and price going forward to find a good mix there.

By the end of last quarter, Vinda was still the market leader in China, so no big impacts on market shares due to this.

#### Slide 8 – Adjusted EBITA, Q3 2018 vs Q3 2017

Adjusted EBITA. And again, a new record when it comes to a negative impact from raw materials. Price/mix improved by SEK 708 million, which is higher than the SEK 550-something million that we achieved quarter 2 over quarter 2. Now this is not exactly comparable, but we expect that the price/mix component on this waterfall will increase as we go forward, with the volume impact being smaller and this is then due to Consumer Tissue, all the other segments had positive volume impact.

Also added then to the headwinds in this quarter, we had a significant increase in energy costs and other, the big red other there, minus SEK 289 million. We also had higher distribution costs for several reasons. One is that fuel prices are going up on the back of higher oil prices, but also a lack of distribution capacity. So prices are going up to buy distribution.

Behind the other bar here are also some impacts that are of temporary nature, even though it's unclear yet how long. And one big impact other than distribution is actually tariffs between Canada and the U.S. We are exporting our Professional Hygiene tissue from the U.S. to Canada and Canada put in place a tariff on tissue as a countermeasure to U.S. steel tariffs. And even though the new agreement is in place, these tariffs are still in place. And I mean, it's expected that they should go away in the medium term but this is not yet decided. So there are some impacts like that under other here.

Cost savings are lower than what we have been used to see. Typically, they've been between SEK 250 million and SEK 350 million now for the last couple of years. And this is 2 reasons. One reason is that we had incredibly good cost savings last year, so just the comparable is tough. The other one is that when we are now restructuring the company significantly and we are moving machines and we are closing and so on, this is, in some cases, negatively impacting operations. And we've seen some additional costs in some of our plants and facilities during the quarter because of all the changes that we're making that has a negative impact on the possibility to save costs. And we don't expect this to continue. But what we do expect to continue in the fourth quarter is that we will have a tough comparable also in the fourth quarter because last year, in the fourth quarter, we had record-high COGS savings.

#### Slide 9 – Raw Material Development

Raw material development. Year-over-year, oil-based and pulp costs are up approximately 30 percent overall. And we have added energy prices in this graph also to show the development in that area just as an overview or indications where things are heading. But actually, this quarter, we won't talk entirely about significantly higher everything for the next quarter. Actually, quarter 4 prices in these areas are expected to be significantly higher than

fourth quarter last year in all areas. So this goes for pulp. It goes for oil-based materials. It goes for energy. So no letup there. Another quarter of significantly higher.

But when we look sequentially, we see that for Professional Hygiene, we see stable prices. For Consumer Tissue, we see higher prices, not significantly higher, and this is because pulp prices are stabilizing. However, for Personal Care, we have another quarter of significantly higher raw material prices sequentially, and this is due to the increasing oil prices, where there's a lag in how they move on to the plastic products that we are using.

#### Slide 10 – Efficiency Improvements

Efficiency improvements. I think we touched on that. And again, to underline, we have difficult comparisons also in the fourth quarter when it comes to the COGS savings.

SG&A savings. This is information we started to provide last quarter. We reduced SG&A with 20 basis points in the quarter. And in this quarter, we did not have lower A&P. And last quarter, we flagged that we will continue to invest in A&P to support all the product launches I already spoke about and also initiatives in Inco retail in general. So A&P is remaining at around 5.2 percent of sales in this quarter. So the reductions you see here are then on other parts of SG&A.

#### Slide 11 – Cost-Savings Program

The cost savings program, we are providing some more information today. The first is that this is mostly related to a reduction in headcount, approximately 1,000 positions throughout the group. We're also providing information on the restructuring, which will then be SEK 700 million, and this will be cash recognized as impacting cash flow since it is related to staffing reductions.

However, on a positive note, the expected annual cost savings on an annual run rate by the end of next year, we have increased from SEK 800 million to SEK 900 million, and we expect to start seeing positive impact from these savings from the beginning of next year and then gradually as the year moves on.

### Slide 12 – Personal Care, Q3 2018 vs Q3 2017

Then briefly on the 3 different business units with organic net sales in Personal Care increasing 2.2 percent, with a mix of volume and price/mix. Adjusted EBITA margin, negatively impacted by significant negative impact, also now in Personal Care, of 320 basis points on costs, including energy and higher distribution costs. And we had also some one-offs in a few markets, France and the U.K., where we were changing our distribution structure and we actually had some temporary issues.

In Incontinence Products, you can see we are really returning to growth, and this goes for both retail and health care. So this is a very positive development that we're happy about. While in Medical Solutions, of course, we're not happy with the decline in growth. We see this as also a temporary impact from some local destocking of distributors and so on and expect Medical to be back to growth. On a positive note, Medical continues to increase margins, which is incredibly important for the value creation and the business case, of course. So they are very much contributing to our margins and to earnings per share from that perspective.

In Baby Care, we have very difficult market conditions in emerging markets and this goes for North Africa, our joint venture Sancella, our joint venture in Turkey, and to some extent also to Colombia and Russia, while Malaysia is doing quite well actually. So negative impacts there. We have also, a few quarters ago, I think we reported the step out of the baby business in Central America, which is also part of this negative impact. But that's something that we did to improve the overall profitability going forward.

And then Feminine Care, that continues to grow very, very strongly. And again, based on a strong innovation pipeline, fantastic branding and marketing efforts. So continuing to do really, really well.

### Slide 13 – Consumer Tissue, Q3 2018 vs Q3 2017

Consumer Tissue. And here, you can see that the volume was actually down 4 percent, while mix, up 4.2 percent. So ending up in, more or less, a flat

organic net sales, or slightly positive. And the growth that we had overall is from emerging markets.

Adjusted EBITA margin, 5.8 percent, and of course, this, we haven't seen for a long time. But then this has to be compared with the headwinds of 830 basis points in the quarter, which is also unheard of. And I think I touched already on the fact that we are taking out mother reel volumes, which has a negative impact on the volumes, but also the fact that the price increases done in China had a negative impact on volumes also. So a quite reasonable impact on overall sales, but coming from pricing rather than volume. And that's part of the overall impact you see here, the price/mix combination there.

And also in this category, we see higher distribution costs for the reason already mentioned. And again, Tissue Roadmap restructuring initiatives that cover both Consumer Tissue and Professional Hygiene.

#### Slide 14 – Professional Hygiene, Q3 2018 vs Q3 2017

Finally, Professional Hygiene. Positive organic net sales of 2.9 percent coming from both volume and price/mix. Adjusted EBITA margin down also for Professional Hygiene in this quarter. I think it was up last quarter. This quarter, down by 210 basis points on the back of higher raw material costs, higher distribution costs.

However, growth continues to be good, especially in emerging markets, where we now have 3 or 4 continuous quarters of very, very good growth. In the mature markets, similar story to what we heard now for a few quarters. So good in Europe and a little bit slower in North America.

Before leaving Professional Hygiene, we have announced price increases for Professional Hygiene from the beginning of next year, both in North America and in Europe. So we are expecting to see price increases, not only in Consumer Tissue now in a second and third wave, but also in Professional Hygiene. And as you know, there's a different pattern where in Professional Hygiene, we typically have annual negotiations, and those negotiations are finalized or progressing well.



Slide 15 – Summary

So to summarize, challenging market conditions continue. We also, in this quarter, have some temporary effects, some additional effects like distribution and energy costs. We are working with our profitability-enhancing activities and we're adding even more activities to, of course, change the curve and improve our margins. So in addition to our investments in our strong brands, our price increases, our restructuring efforts, we're also launching now on top another cost-saving program and a reorganization on group level.

So thank you for listening. Let's open up for questions, Joséphine. And Fredrik.

Q&A Session:

Joséphine Edwall-Björklund:

OK. I think we have a question here on the first row.

Linus Larsson, SEB:

It's Linus Larsson with SEB. I'd start with question on cost inflation in the third quarter year-on-year. You reported raw material cost inflation of SEK 1.3 billion almost. In the fourth quarter, do you expect that figure to be higher, lower or roughly the same?

Fredrik Rystedt:

We normally don't give exactly those kind of forecasts, but given that Magnus has actually talked about the sequential development, it should be slightly lower than that. So you can calculate that yourself. But we don't normally give the numbers, Linus.

Linus Larsson:

And is that because pulp costs are stabilizing but you see some additional cost inflation picking up elsewhere?

Magnus Groth:

Yes.

Fredrik Rystedt:

Yes, exactly.

Linus Larsson:

So right. So just to be clear, the year-on-year raw mat cost inflation could actually be higher in Personal Care Q4 than we saw in Q3?

Fredrik Rystedt: Once again, since it is sequentially significantly higher for Personal Care, that's a reasonable assumption.

Magnus Groth: And actually, year-over-year as well when it comes to Personal Care, specifically. So yes.

Fredrik Rystedt: Yes.

Linus Larsson: Excellent. That's clear. And may I also make an attempt on the same thing when it comes to price? Price/mix, you reported plus SEK 708 million Q3-on-Q3 last year. Would you say that Q4 will be higher, lower or roughly the same magnitude of figure?

Fredrik Rystedt: We cannot comment on that, Linus. But of course, we sequentially increase prices, obviously, we try and do that. So it's – we just don't give those kind of forecasts. But of course, prices will continue to rise as Magnus alluded to.

Linus Larsson: That's fair enough. I also wonder a bit about further restructuring. You have launched a couple of initiatives since we last met. But when you look at, how should I call it, hardware restructuring, Tissue Roadmap, that sort of structural changes, do you see a need for further changes? Further initiatives in the next couple of quarters?

Magnus Groth: In general, we have moved through the Tissue Roadmap that we established in 2015 much faster than we expected due to the higher raw material costs. And I've stated now for a couple of quarters that we're probably beyond the halfway mark on that restructuring. However, if raw material costs stay extremely high, of course, over time, we will compensate with pricing, with savings and so on. There could be additional need for restructuring as certain assets then might not be value-creating anymore. But with this caveat, I still believe that the high pace of restructuring that you've seen will be slightly lower going forward. Now we will have restructuring from the cost-saving program, of course, that we presented today during next year.

Linus Larsson: OK. Just one final question from me. With regards to Asaleo, the Australian personal care tissue company that you're part owning, how do you see your role going forward as a big owner? Is it so that you will need to step up your

ownership? Or is it so that Vinda would be a more natural sponsor in that business going forward?

Magnus Groth: As you know, we don't speculate on M&A-related businesses. We've been very happy with our stake since it has been a nice dividend, actually, to our net results. And we have a strong exchange of innovation. And as you know, Asaleo are using our brands Tork and TENA, Libra, instead of Libresse and so far, so we have a very good cooperation that we expect to continue with. Of course, Asaleo is struggling now in many ways in the same way as the industry at large. So very tough conditions in Consumer Tissue, to some extent in Baby, but they are doing really well with Professional Hygiene, with Incontinence Care, with Fem Care. So kind of a similar situation as most hygiene companies currently. So – but we expect, of course, that Asaleo will be back on track and improve their performance as well.

Joséphine Edwall-Björklund: Yes?

Mikael Jåfs, Kepler Cheuvreux: Mikael Jåfs, Kepler Cheuvreux. A couple of questions from my side. Just a clarification. So in Professional Hygiene, you mentioned that you mostly have annual contracts. And then does this then mean that the pricing you have had in that business has been more or less stable for all of this year, up until now?

Magnus Groth: It's – yes, it's more stable than in the other categories. Also, raw materials have been fluctuating, but actually balancing out because of the higher share, where the majority of raw materials is recycled fiber. So it's more stable in general. I don't know if you have anything to add there, Fredrik?

Fredrik Rystedt: No, it's exactly as you say. It hasn't been stable because what you typically do is that you may not have the possibility to raise on all SKUs, as an example. So generally, you may do it on some and then you increase further as you go. So generally, it is annual, exactly as Magnus say, but there will be adjustments. And we've done that during the year so there's been some adjustments.

Mikael Jafs: And now you basically are attempting to increase prices for next year that's ongoing?

Magnus Groth: Yes.

Fredrik Rystedt: And this we do actually every year.

Mikael Jåfs: Yes. And then a general – I mean, you are working on a marketplace and probably your competitors are feeling the pain as well. So is there any way you could sort of quantify how you, together with sort of the marketplace, is sort of reacting to this? Is it easier, harder, tougher? Someone trying to take market share just – I know that you cannot be specific, but something?

Magnus Groth: And of course, we don't have that information either. But the strong momentum for price increases in Consumer Tissue continues, which shows that, of course, the raw material impact is significant for everyone in the industry. And that's why we are now in the middle of a second round of price increases in Consumer Tissue Europe, for instance, which never happened before. This is kind of unheard of. So clearly, there's a need for price increases there.

And in Personal Care, in Incontinence Care, as also you can see from the numbers, actually, the price pressure that we've been seeing, especially then in health care for a number of years that we have kind of compensated for with efficiency improvements, that price pressure has come down a little bit on the back of higher oil prices. So we're seeing that that's leveling out right now. And of course, that's necessary to compensate for the higher oil-based prices. And again, just to remember that in health care, the contract terms are typically 3 years. So it takes time to actually reverse and get back to price increases 3 years to actually exchange the whole portfolio when it comes to pricing.

Mikael Jåfs: And last question from my side. You are announcing this morning that you're changing the number of your corporate functions. Is there any way to sort of quantify that in sort of – will it take down costs? How much would the impact of improved efficiency be? Is there any way to do that?

Magnus Groth: Not to quantify, but it makes it clear in the organization that what's operational and what's more kind of controlling staff related. And by moving,

for instance, our global business services and IT from a staff function into what we call then a global unit, which is serving the business unit, there will be a much more operational focus on those businesses. And by combining that with purchasing and logistics, we are putting together a kind of end-to-end process efficiency unit where we expect to be able to see big savings, both in the short term but also longer term, when as digitalization, of course, has a bigger impact in specifically these areas. So that's one change. And then when it comes to other areas like sustainability, we see that looking forward, the big questions around sustainability are regarding post-consumer waste and that's very close to our innovation and branding. So that's why we're moving a big part of the sustainability focus to that unit and other parts, then to compliance and to financial reporting.

Joséphine Edwall-Björklund: Any more question from the audience here? OK.  
So operator, please then let's open up the questions from the telephone.

Celine Pannuti, JPMorgan Chase:

My first question is on Consumer Tissue. Could you talk about – you said that pricing momentum is positive, but could you talk a bit about how much pricing that you thought you would realize by the end of this year has been put through in Q3? And hence, I would like to try to gauge how much acceleration we can expect for Q4. And then what – on that basis as well, how much we should be forecasting for 2019? If you – I don't know if you could talk about how much pricing you've seen at the retail end being increased.

My second related question on that is regarding China. Can you tell us what competition has done in China? And are we at a point where we could see a stabilization or looking forward stabilization of volume? And my third question is on others. We – you hinted that there will be a tough comparative that will as well be taken into account for Q4 in others. What about as we look into next year? Are we as well talking on a higher base, both in terms of distribution cost and cost savings for the first half of 2019?

Magnus Groth: Retail pricing to start with. Yes, retailers have increased shelf prices for consumer tissue, so that means that they are also more accepting higher consumer tissue prices. They see the need and then, of course, also see the

higher raw materials. We don't give any numbers, what the impact will be in the fourth quarter or for next year. But again, as mentioned all the time, we expect to have an increasing positive price/mix in this area quarter-over-quarter sequentially. How much this is, we don't really provide that information.

Fredrik Rystedt: Maybe just an additional comment. You asked, are the price increases in line with our expectation? I think the answer is, absolutely yes, Celine.

Magnus Groth: Good point.

Fredrik Rystedt: I think the issue is, in fact, that the raw material impact has been gradually increasing. So actually, catching up is a very difficult thing to do. You're always kind of behind the curve. So price increases will have to continue for quite some time, of course, Q4 but also during next year. So yes, they are in line with our expectations.

Magnus Groth: And the dynamics in China is that Vinda was the first of the 3 or 4 major players that went up with price increases. This had a negative impact on volumes. Since then, the other players, APP, Hengan, C&S have also increased prices. And what we've seen partly is that the 4 big players have lost some volume to smaller players due to this. But of course, overall in China, the dynamics are the same and pulp prices have, at least for a few quarters, been even higher in China than in the rest of the world.

So we expect that going forward, that Vinda will be able to find a balance between volume and margin that is then more balanced than what we saw here in the third quarter. And other Q4 distribution costs, I guess, we don't expect any change. The tariffs haven't gone away yet, so expect we will have them also in Q4, the Canadian tariffs. What else under the item Other, Fredrik?

Fredrik Rystedt: Well, there – I think Magnus already mentioned it, but there are basically 4 main items, you can say. The first one is distribution, and that's the biggest part. And of course, that is continuing to be very challenging. So on a Q4-Q4 basis, of course, that will be significantly higher, obviously, since oil price is, of course, a big part and also the fees, et cetera, and the availability. That situation is not really changing. So Q-on-Q, we'll see a tough comparison. The

same for tariffs. That's, of course, a new thing. It's mainly tariffs between Canada and United States.

There's also some other tariffs on smaller things that we import also from China, as an example. So they will actually stay there. Hopefully, they'll go away, but you know that as well as we do. We have a couple of other things. There's slightly lower volume produced also in this quarter, has to do also, of course, with the volume development, not least for Tissue Roadmap. So the closure you see there, that's the result – that's the impact in Q4 on Q4. And then we also have the final and fourth component this quarter and that's actually currency impact from finished goods. So if we manufacture, for instance, finished goods and we sell it in some other country with a different currency, if there's adverse changes there, we have that impact here. So I think all of those will – are likely to stay for Q4, and of course, to some degree, even increase. And so it will be challenging also in Q4.

Celine Pannuti: All right. And shall I expect as well this to be a comparative issue also in the first half of next year?

Celine Pannuti: Yes. To follow up, I want to just on the other, that's you what are saying, whether the comparative base will also be an issue, therefore, in H1 given what you said. Maybe tariff, it will be the question mark, but the rest should remain. And another follow-up on the volume impact on tissue from rising prices outside of China. Have you seen any elasticity there?

Magnus Groth: So the other line to what extent it will continue to be on the same level in first half of next year, I think it's very difficult to state, actually, at this point in time. So I can't give you really any more information on that. But the components, you now heard from Fredrik.

And then when it comes to price elasticity in Europe, because the entire industry has been increasing prices, we haven't really seen a big negative volume impact. And in Latin America, volumes have been slightly lower over the last 2 years than we've seen historically and that really hasn't changed. And also as before, it's easier to increase prices in emerging markets like Latin

America and Russia and those markets. So no, I think the impact has really – from elasticity, has really been the greatest in China.

Fredrik Rystedt: And maybe there to add, Celine, I guess, you already know that, but elasticity is not really with the consumers. So if the price is slightly higher for tissue with the consumer, that doesn't actually have a big impact on consumption. It's much more with the retailers and the possibility of raising prices due to competition or those kind of things.

Operator: Your next question comes from the line of Sanath Sudarsan.

Sanath Sudarsan, Morgan Stanley: Two quick questions for me. The first one is, can you just give us some clarity on the price increases in terms of the progression you've had? Is it higher than the first one you've taken? Or do you expect to take a much more lower price increase in the second round? And the second one, I just wanted to understand your thought process here, Fredrik and Magnus, in terms of how do you envisage using these cost savings. Is this more seen as a measure to make the firm agile and improve profitability? Or is it a kind of a protection against future input cost pressure that you expect next year, and in a sense, kind of arresting the margin slide?

Magnus Groth: To answer your second question, yes on both. Of course, we are – want to see the positive impact as quickly as possible to offset the negative margin impact from higher raw materials. But the reason why we're adding an organizational change to the cost-saving program is that we are absolutely, I mean, for making this a more agile and even faster and responsive organization that's closer to operations.

And I think that all of these savings are sustainable and will be part of our kind of structure going forward. So it's not, in this SEK 900 million, it's not kind of temporary savings just to overcome temporary raw material headwinds. This is to – for building a stronger company for the future. Price increases second round, I don't have full visibility on that. But overall, I would say it's on the same level as the first round. Of course, we haven't said much about the level of the first round, but I think that's more or less what I can say.



Sanath Sudarsan: And sorry, can I just add one more, please? There was this rebate release in the Professional Hygiene business last year in the fourth quarter. Could you give us any sense of direction on how we should be expecting that to trend?

Fredrik Rystedt: Yes. You should not expect that similar release for Q4. It's always very difficult because that – the way that works, and we explained it very much last year, but the way it works, you set provisions during the year. And of course, if you have too low volume, then your provisions are too big and you release them. And of course, we don't want that to happen, of course, we want to sell. But we don't expect major releases. It's really difficult to tell. It will depend on the volume for the fourth quarter, so it's difficult to say. But we – you should not expect that.

Magnus Groth: I guess, you could say they were unusually high last year.

Fredrik Rystedt: Yes.

Magnus Groth: Yes, for sure.

Operator: Your next question comes from the line of Oskar Lindstrom.

Oskar Lindstrom, Danske Bank: Yes, 2 questions. First off, just this on Consumer Tissue and the price increases and volume losses that you had during this quarter. I mean, you mentioned that the volume losses were primarily outside of Europe. Did you also lose volumes in Europe? Or was it actually – what was the volume situation in Europe in Consumer Tissue? And then on the price increases, those price increases that we saw for Consumer Tissue as a whole, could you break those down? I mean, how much was in Europe and how much was, let's say, elsewhere?

Fredrik Rystedt: Yes. If you look at the European volume situation, if you exclude mother reels, it was largely flat. So basically, the decline you saw on the mature market had to do with mother reels entirely, that's all. And of course, that was, as Magnus alluded to, all due to the Tissue Roadmap closure. So basically, largely flat, you can say.

Magnus Groth: And price increases, to what extent they can – I don't think we have that split, actually. We want to provide that split either, to what extent it comes from emerging or, yes, or mature markets.

Oskar Lindstrom: All right. If I may ask, my second question here is on the price increases that you highlight for 2019. You say that you're currently in negotiations for these, and I was wondering a little bit about the – where you are in those negotiations and the timing of the price increases in 2019. You said now earlier that the price increases for Professional Hygiene would come in at the beginning of the year. What about for Consumer Tissue?

Magnus Groth: Same with Consumer Tissue, even though there will be some minor impact also in the fourth quarter, and the full impact in the second quarter of next year since in some countries like France, new prices actually take effect from the beginning of the second quarter. But you can assume that most of the impact of the Consumer Tissue price negotiations that we're now in the middle of will be kind of ramping up throughout the first quarter next year.

Operator: Your next question comes from the line of Guillaume Delmas.

Guillaume Delmas, Bank of America Merrill Lynch: Three questions for me, please. The first one on savings. So you announced a new program last month. You increased the target this morning to SEK 900 million. My question on this is, how should we think about the net contribution from this program? And in particular, should we expect this program to enable you to deliver this exceptionally high level of savings we've seen between Q2 '17 and Q2 '18 of more than SEK 300 million? That's my first question. Second is on the raw material impact.

Could you give us the split between the increase of the U.S. dollar, or the dollar appreciation, and the actual increase in raw material prices? Because if I remember well, in Q1, the dollar was still a strong tailwind before turning into a small headwind in Q2, so wondering what happened in the third quarter. And then finally on A&P spend. I think at the start of the year, you were giving a guidance of a slight increase for A&P spend as a percentage of sales. Now my understanding is year-to-date, A&P is relatively flat. It's not slightly

down as a percentage of sales. So what should we expect for Q4, a meaningful increase? Or actually for the year, A&P to be flat as a percentage of sales?

Magnus Groth: When it comes to A&P, I would say that it will be flat to slight increase rather than decreasing because, again, we have a lot of product launches and we continue to invest behind them. When it comes to the raw mat impact on the savings, Fredrik, I'd like to hand over to you.

Fredrik Rystedt: Yes, the savings. The question there, I guess, will that compare to the SEK 350 million? Actually, I think Magnus alluded to one thing. I mean, we're doing so many different things to mitigate the impact. Of course, the price increase is an obvious thing. But in addition to that, we continue to work with Tissue Roadmap and general efficiency or the cost savings in COGS, as you see reported every quarter. And then, of course, we also have Cure or Kill and we have all other savings that we do.

And this program that you see now, the SEK 900 million is on top of all of those things. So we have a long list of different measures and activities, so you shouldn't compare the SEK 350 million to the SEK 900 million. We will continue to do ordinary TCP savings. So this is on top. Yes, exactly COGS. The savings program we have now, is largely SG&A, largely SG&A. So we will continue to do that. The net impact, it's very difficult to say from all of these things. Of course, we have inflation and other things. But of course, our estimate is that we would, of course, like to keep as much as possible in the P&L and we also count on doing exactly that. But the exact number is always difficult to say. I think the raw material impact is a negative impact for currency, totally about SEK 250 million roughly or SEK 245 million.

Operator: Your next question comes from the line of Chas Manso.

Chas Manso, Société Generale: Two questions on Consumer Tissue. I was wondering whether the cost situation is having any impact on the industry supply versus demand dynamic, particularly in Europe. Usually, there's a little bit of oversupply and I was wondering whether that had been reduced given the pressures there. And also, could you give us your market share changes in European Consumer Tissue year-on-year?

Magnus Groth: Yes. Market shares haven't really changed that much recently, even though we've taken out capacity, since a lot of that capacity was not turned into finished products but actually sold as mother reels. And there haven't been big volume shifts between different players, to our knowledge. Of course, we don't have the full picture in the ongoing price negotiations. So that seems to have been quite stable. When it comes to supply-demand balance, there was a significant increase in supply in 2016, '17 and partly this year also, based on investment decisions taken earlier when interest rates were lower and margins were twice as high as today in Consumer Tissue.

And all of them are up and running now. And in spite of this, we are able to get pricing also going forward. And I haven't seen announcement for new capacities now in Europe in some time. There have been some announcements outside of Europe in Consumer Tissue but not really in Europe. So of course, that's also positive going forward. And let's see what happens. But if interest rates go up, of course, it becomes less likely for new capacity to be added in Europe specifically.

Chas Manso: OK. And so a similar question really on the pulp side. Given higher pulp prices, pulp costs, has that encouraged the pulp producers to announce further increases in their capacity and how that might impact you?

Magnus Groth: One of the reasons why pulp prices are all-time high, which they actually are, and why they seem to remain higher for a longer time period than ever before, I mean, that's actually the reality that we're facing, is a combination of a high relative demand increase, which has to do not only with Consumer Tissue or tissue products, but also relating to packaging, of course, with the increasing global trade. Let's see what happens to that. But this is one factor.

Another factor is that actually we have some structural changes between pulp supplier with the mergers of, for instance, pulp – Suzano and Fibria in Brazil where they are then – while this merger is ongoing, stated that they will not add any new capacities while the negotiations are ongoing and this already impacts, I think, fully the raw material prices. And then we had the third issue, which was then the fact that China has significantly diminished the imports of recycled fiber to China, which has been used in the packaging industry. And

this has to do with the overall cleanup program that China is in the middle of, where they are reducing the import of what they classify as waste.

And this has then increased the demand for fresh fiber for packaging materials, especially in China. So all of this together had – has led to this cycle of exceedingly high pulp prices for a long period. And we're not really seeing, in the short to medium term, any changes there. We can't – I can't say that we're seeing pulp prices going up either. They're actually stabilizing now since a few months. But there's no real reason why they should be coming down either.

Chas Manso: OK. Sorry, the last one for me. You may have said this and I apologize if I've missed it, but you talked about some temporary cost tariffs in U.S., Canada. Could you sort of quantify those temporary costs for us?

Fredrik Rystedt: Yes, they're about SEK 50 million, you can say, totally the trade – the tariff part.

Magnus Groth: In the quarter.

Fredrik Rystedt: In the quarter. And then we have – yes, exactly for the year, it's, of course, much more. And then we have other more of temporary nature. Of course, we talked about the volume part. We have finished goods and currency, et cetera, that has been, in the quarter, actually quite negative. It may remain there for 1 or 2 quarters, but of course, we see them as temporary.

Operator: Your next question comes from the line of Rosie Edwards.

Rosie Edwards, Berenberg: So just 2 sort of quick follow-up or clarification points. Just starting on Consumer Tissue. Just trying to get – understand exactly, so what changed in Q3. I mean, obviously, we're talking about price increases, obviously, in Europe but also in China, Latin America. We talked about mother reel exit. But all of these things existed in the second quarter. So I'm just trying to understand sort of how growth went from nearly 2 percent to basically flat, what the big delta was.

Fredrik Rystedt: The big delta is China.

Rosie Edwards: As in – but prices were already up, weren't they, in Q2? Price increases have been already taken in, in the second quarter, is that right, in China?

Magnus Groth: Yes, mostly, but the impact was in the third quarter. And also, in China, we had very difficult or tough comparables to the previous year actually in China. So that's an additional factor.

Rosie Edwards: Got it. OK. And then secondly, just a quick follow-up on the sort of other line, and I would sort of try to get an understanding in terms of how that looks in the first half of 2019. Just specifically on the sort of the rebate savings, we know obviously there's a very tough comp in Q3 and Q4. Can you remind us what your rebate savings were in Q1, Q2 2018? Or any sort of qualitative guidance around the – not the exact number per se, but anything you can say about the level of savings you're achieving in the first half of this year?

Magnus Groth: Just to clarify, you're now referring to, I think, to the COGS savings. That's where we have the rebates from raw material suppliers.

Rosie Edwards: Yes.

Magnus Groth: Yes. So it's not the other line, it's the COGS savings. And to what extent we had a bigger, smaller impact from rebates versus more the total costs – product cost fixed in the plants, I couldn't say. I don't know, Fredrik, if you have any more color to add.

Fredrik Rystedt: For the first 2 quarters of '19, was that your question?

Rosie Edwards: No, how they looked in the Q1, Q2 of '18.

Fredrik Rystedt: The discount. Yes, I – we don't give that detail, Rosie. We just don't do that. Generally, as we have communicated a couple of times before here, that, of course, as the pulp, in particular, the pulp market becomes more and more challenging, discount and negotiation savings becomes that much more tough to accomplish. Of course, it's – part of that is just pure negotiation power and a part of that is basically qualifying many suppliers for a machine, for instance. So we do a bit of both and we still have good savings within our

purchasing operation. But of course, it's become much more challenging and Q1 and Q2 were both better in that sense than Q3.

Rosie Edwards: OK. Am I right in thinking that a year ago, so Q3, Q4 '17, you were getting good part of the – that's part of the problem in terms of you're lapping this tough comp from the rebates.

Fredrik Rystedt: Yes, yes, of course. Exactly.

Joséphine Edwall-Björklund: So operator, was that the last question?

Operator: Yes. There are no further questions. Please continue.

Joséphine Edwall-Björklund: OK. So then we conclude today's press conference. Thank you so much for joining and have a good day.

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