

Essity Aktiebolag (publ) Year-end 2017 Report
Moderator: Magnus Groth
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Joséphine Edwall- Björklund: Most welcome to Essity's Year-End and Q4 Report for 2017. I'm Joséphine Edwall-Björklund, head of Communications. Today our CEO, Magnus Groth will together with our CFO, Fredrik Rystedt, go through the highlights in the report, followed by a Q&A session.

Today we have a tight schedule so we need to stop at 2 o'clock so if there are any more questions after that related to Investor Relations, please contact the Investor Relations team and for Media Relations, we have the Media Relations Team. So, with this I'll hand over to you Magnus.

SLIDE 4: Summary 2017

Magnus Groth: Thank you Joséphine. I'll try to keep it brief even though we have both the full-year and the quarter to cover.

SLIDE 5: Summary 2017

To summarize the last year, we split of course from SCA, the forest company, we acquired BSN medical but maybe what I'm most happy about is the fact that we were able to keep a very strong focus on profitability enhancing initiatives.

It's been so important in a gradually more challenging market and as a result of this we were able to report increased sales and profitability for the full-year as well as for the fourth quarter, I'll get back to that.

And also, to set the starting point for Essity's dividends where we have a proposal to the AGM to provide a dividend of SEK 5.75 per share.

SLIDE 6: Financial Summary – 2017 vs 2016

As a financial summary for the year, as you know, we've been challenged with growth in some quarters but overall, we came back to organic sales of 1.2 percent.

We were also able to show improvements in all the different metrics over the year and also to deliver a strong cash flow.

SLIDE 7: Financial Summary – 2017

Earnings per share also the first time we see these numbers, impacted this last quarter of course by the one-time non-cash tax impact coming from the changes in the U.S. tax policies.

SLIDE 8: Dividend

The new starting point, our proposal for dividend of SEK 5.75 per share, this is based on the fact that of course last year when we were still SCA including the forest we had a dividend of SEK 6.00 per share, this year we are without the forest but including BSN medical, BSN medical and the rest of the Group is delivering very strong cash flows and good numbers and finding the balance we see this as a good starting point as a proposal for stable and increasing dividends which is our dividend policy.

SLIDE 9: Profitability Enhancing Initiatives

Profitability enhancing initiatives, as I already mentioned this is what I'm most happy about that we were really able to keep the momentum in the entire organization in spite of the big transformational changes that we saw last year.

Tissue Roadmap and Cure or Kill, we speak a lot about that but the biggest savings actually come from all the hard work that's been done by all our 48,000 employees, everywhere in the Company, everyday; this is in the supply chain but this is also in sales, in logistics, in SG&A, administration, sales general, all parts of the business and it's really contributing to our performance.

I'm also happy to see that again we were successful in integrating the two large acquisitions we made over the last two years Wausau Paper Corp. where we're at the end of the integration phase and BSN medical where we of course just started.

SLIDE 10: Initiatives and Recognitions

Some initiatives and recognitions from last year, I'd like to focus on the last bullet point here because this is a very important award that we received just two days ago in conjunction with the Davos' Summit where we have been recognized together with SCA but also as separate companies, as one of the world's 100 Most Sustainable Companies, so yet another I think good proof-point that sustainability remains as important for us also as Essity after the split.

SLIDE 11: Beliefs and Behaviors

We launched our Beliefs and Behaviors last year which is of course more important than anything else, culture is the most important I think component of any successful company and these are the four beliefs that we would like to be representing everyone in this company.

And in this is to a large extent we believe that when it comes to caring for our customers, consumers, the environment, and collaboration, we are extremely strong and this is one of our competitive advantages and we're now working throughout the organization as to further improve and strengthen our commitment to results and also having the courage now being a global leading hygiene and health company to really take the lead in our different businesses and categories.

SLIDE 12: Innovations for People and Nature

We continue to launch innovations at a high rate ending up at 41 innovations last year, which is higher than usual but remember that now we also have BSN medical in the company so what is a sustainable reasonable level when it comes to number of innovations, we'll have to get back to you, I can't give you that number now.

However important to notice is that now that we're learning more about BSN medical we actually see that the innovations and launches that they are doing are providing significantly both to top and bottom line for BSN medical which is exactly what we're interested in of course, a company that's driven by innovation, R&D, and as an opportunity to differentiate and to build brands.

So, it's really working and you have an example here on the slide here from Leukoplast.

SLIDE 13: Summary Q4 2017

Moving over then to Quarter 4 and as I mentioned initially the trading environment has really become increasingly difficult throughout the year, quarter-over-quarter.

In spite of these were able to continue to show growth both on topline and on our EBITA.

Return on capital employed that you know, is gradually coming down as we include BSN medical in the base of capital employed here so that will stabilize after the first quarter 2018.

We continue to see very strong contributions from efficiency improvements and that explains this continued improvement in our results.

SLIDE 14: Financial Summary - Q4 2017 vs Q4 2016

To summarize some numbers, Fredrik will talk more about this, not only did we grow topline and our results but also continue to deliver strong cash flow in the quarter.

SLIDE 15: Financial Summary - Q4 2017

Earnings per share SEK 4.11, quite strong, we have not had any significant restructuring efforts in this quarter but of course we have the big positive impact from the U.S. tax reform which is non-cash and it's a one-time impact also.

SLIDE 16: Personal Care - Q4 2017 vs Q4 2016

Moving over to the three segments, starting with Personal Care, that now includes also BSN medical. During last year we successfully integrated the organizations of BSN medical into our Incontinence Care business to a new business unit we call Health and Medical Solutions, that reorganization is now done, the targets are set and the organization is focused on now delivering on the targets for this year.

Organic sales increased, we will see there are some difference later between the different categories. Of course, we had the BSN medical acquisition included here, higher volumes, big cost savings, continued improvements in North America that we keep talking about but it's such a great turnaround so we still feel the challenge, we keep bringing it up here.

And the positive effects of course from the closures, and this is the last quarter where we now will have these positive effects from the closures of the hygiene business in India and the Baby Care business in Mexico on margins.

Significantly higher raw material costs, may be higher than we had expected when we came into this quarter and also more challenging pricing environment and competitive environment, so both of these factors continue to become tougher during the quarter.

SLIDE 17: Personal Care - Q4 2017 vs Q4 2016

Looking at the sales split by regions, we grew both in mature and emerging markets by product segments; remember that Baby Care which shows a negative growth there of 0.8 percent, we have the closures in India and in Mexico so taking those out, we are actually growing really well in Baby Care in Western Europe and also in Eastern Europe.

Russia still struggling, it's a small part of the business. I think last time I was standing here I said, "We're not going to talk that much about Russia anymore because it is a small part of the business," but I think we're moving in the right direction also in Russia.

SLIDE 18: Medical Solutions

Medical Solutions, the integration is progressing according to plan. Organic sales in the quarter increased by 2.4 percent, EBITA margin 18.4 percent; the EBITA margin fluctuates a little bit now between the quarters as we are getting to know the business and digging into different countries and businesses but in general we're really happy about the Company, we see opportunities everywhere in BSN medical to grow both topline and margins so we are happy about how BSN medical is progressing and now is the third quarter since we acquired it.

SLIDE 19: Consumer Tissue - Q4 2017 vs Q4 2016

Consumer Tissue which has seen the biggest challenges in the quarter where we saw the organic sales increasing but with a very mixed performance behind that and a huge impact negatively on adjusted EBITA margin, you can see there from 10.7 percent to 8.2 percent so a deterioration with 250 basis points.

Actually, behind this in the quarter compared to last year's fourth quarter we had a negative impact from raw materials of 550 basis points so through all the efficiency savings, cost savings, lower energy costs, better pricing especially in China and improved mix in all our markets, we were only able to cover up for half of this which we are kind of happy about.

As we see it we are right now in the worst combination of very tough market conditions with overcapacity in some markets, very tough competition between the established players, a difficult retail climate, and added to that, nothing new, the higher raw material prices.

This will continue into the first quarter, after this we know that we will see pricing coming through based on the activities that we performed under the fourth quarter so we worked very actively. Last quarter, I said, "We have an ambition to increase prices everywhere," now one quarter later, we will see higher prices starting in the second quarter but really with any significant impact in the third and fourth quarter.

SLIDE 20: Consumer Tissue - Q4 2017 vs Q4 2016

As you can see here we continue to have a really good growth in emerging markets; quite a negative impact in mature markets which is the result of the negotiations that we are in the middle of with our customers and the competitive climate we are in.

Behind this though we have a very good improvement in our mix in Europe, actually in all markets but especially in Europe so we're really moving and growing in our branded part of our business while the decline we see here has been mostly in the lower margin private label and mother reel parts of the

business. So again, addressing according to our strategy, the low performing businesses and moving up the value chain here.

SLIDE 21: Professional Hygiene - Q4 2017 vs Q4 2016

Finally, Professional Hygiene had an exceptionally good margin development as you can see there, up 440 basis points to 19.7 percent, you can see up there in the right-hand corner.

In this case, I would say that a really good underlying performance is hidden a little bit by positive one-time effects so I mean it's all good because also out of these 440 improvements in basis points, about 250 basis points come from one-time effects in the quarter but even then, we see a big improvement here so Professional Hygiene has gradually improved quarter-over-quarter throughout the year.

SLIDE 22: Professional Hygiene - Q4 2017 vs Q4 2016

Volume-wise we see growth both in mature and emerging markets and I'm really happy that quarter-over-quarter the emerging markets are becoming a more significant part of Professional Hygiene so we are getting traction in Latin America, in Vinda, in different parts of the emerging markets in Eastern Europe not the least.

So, it's a very good trend, not only when it comes to the margin perspective but also when it comes to growing in the emerging markets.

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

Fredrik Rystedt: Thank you Magnus.

SLIDE 24: Net Sales - Q4 2017 vs Q4 2016

Fredrik Rystedt: I'll give just a few comments. Starting with Net Sales and as you can see here we had total growth of 7.1 percent and BSN medical is of course a big contributor to that in the quarter.

Organic Sales, as Magnus alluded to 1.8 percent and of course this is as previously impacted by a relatively slow market demand. We also have as we have always reported on price pressure in the market and in addition to that

we also have the exits and we have left unprofitable contracts, as we have reported.

Those exits and unprofitable contracts roughly contribute to about 1 percent of sales so if you were to adjust for that of course the underlying organic growth is higher than the 1.8 percent that we show here.

SLIDE 25: Adjusted EBITA - Q4 2017 vs Q4 2016

This is the bridge that we have for EBITA and is very clear of this 3 percent organic growth there's one component that really sticks out, so these SEK 713 million in raw material impact is really significant, that equates to 2.5 percent or 250 basis points of margin but it's really very significant; it's actually the highest we've ever seen, looking back in a very long timeframe.

And this is actually a net number in the sense that in addition to that we have a positive currency. The dollar is weak so if you just look at the dollar increase, it's actually another SEK 300 million so this is the net number of SEK 713 million.

Now as we talked about, Magnus alluded to, the biggest impact by far is of course in Consumer Tissue, so roughly SEK 590 million, actually more than 5.3 percent of margin so it's very significant and not a small part.

As you will see on the next slide there has been a very big change in China as well, so actually bigger than we have seen in the rest of the world so Consumer Tissue very big both for hard and softwood.

It's much smaller in Professional Hygiene but still very sizable so there the impact is about a hundred million and from a margin perspective about 1.5 percent so we see fairly big impact also there.

This is not necessarily in the quarter recovered fiber, it's much more pulp that we also use within the Professional Hygiene side.

If we look at the last part, the Personal Care side, impact was much smaller. We had however partly on the back of higher oil prices, we've seen plastics

go up, so back sheets and also of course super absorbents so the impact there was approximately 25 basis points on the margin.

So very significant impact. I'll come back to that in the future a little bit, in just a second.

We are quite happy that we have been able to compensate so much of these and of course the first component there being price/mix.

The absolute biggest parts were over SEK 200 million is attributable to Professional Hygiene so very strong development. Price increases, we've had that in the United States or North America.

We've seen really good mix improvements both in North America and Europe and this is of course lots of innovation but it's also a relatively higher sale for high value-added products so this is also very strong.

We had a release of customer rebates and the way that works is that at the beginning of the year, we set a certain threshold with our customers and if you get to that threshold then of course we pay a bonus.

If they are lower in that threshold, nothing gets paid out and of course that also causes releases when volume development has been lower than those thresholds and that has also, as Magnus alluded to before, improved the margin and the price/mix here.

Little bit more about the future there, we have launched as we normally do at this time of the year, price increases both in North America and Europe and provided that we are successful, we'll see gradual implementation throughout the year. Of course, as always very small in the first quarter but gradually hopefully slightly more thereafter.

If we look at Consumer Tissue, we had a positive price/mix. This is coming from higher prices in China so good achievement there and much lower prices in Europe and I'll come back to that in a second.

And we have continued to have good mixed development both in Asia and of course also in Europe and in Europe as we have said before, this is largely

coming from much more growth in the branded segment and of course much more than we have in the retail end.

We've talked about this many times before that it is obvious that price increases are necessary and Magnus talked about it and those negotiations of course are ongoing as we speak.

For Personal Care, the price/mix was negative, a positive mix but a negative price and as before this price pressure remains particularly within the Incontinence Products segment and we also have our own promotions on all the launches that we have done within the retail part of the business.

And we are also impacted here by our continued promotion in Russia and our continued promotion on the Baby Care part of France so that from a promotional aspect is also reducing price and mix.

Volume, we talked about that, this is largely coming from Personal Care so as we have talked about before we expected higher volumes for Incontinence Products and especially for the healthcare side and that's also been realized in this quarter so it's a good development there.

For Consumer Tissue, volumes are reasonably strong in Asia but we have a decline in the European market and of course our very strong focus on margin protection and of course ongoing also, the price negotiations is clearly impacting and that will continue also in quarter one. And then Personal Care as I mentioned before continues to do well.

And another part here, I said that last time, "Unusually high cost savings," I said that in Q3 and also Q2, and we're happy to say that we have another quarter of unusually high cost savings; you can always discuss when unusual becomes usual if it's three quarters in a row but we're very happy about this development.

We've been continuing to have a good performance in our factories, we've saved also money in negotiation savings relating to raw material and in many other areas so all in all as you can see we managed, despite those raw material impact to continue to increase our EBITA level.

SLIDE 26: Raw Material Development

I talked about raw material a lot and this is just showing the development as up until the end of 2017. As you can see recycling paper, we talked about that a lot so it's been relatively stable in Europe actually, improving slightly now in recent quarters in North America but still at high levels.

And of course, if you look at the pulp side, hardwood up by 40 percent, just on a quarter-on-quarter or close to, you see softwood about 20 percent and fluff pulp there about 15 to 20 percent so there's very significant increases.

And China to the very right, even bigger and this has to do with the import restriction for recovered fiber in China where waste and that causes producers that normally use recovered paper to instead use virgin fiber and that pushes the prices up.

So, this you can see very clearly from the ending side of these graphs that for the time being things are not getting better so from a quarter one perspective we expect significantly higher cost for raw material both for Professional Hygiene and of course even more so for Consumer Tissue.

What is not on this graph is the development for plastics, for oil-based material but also there we expect those costs to be significantly higher also for Personal Care so from a sequential basis and also year-on-year, significantly higher raw material costs as we go forward.

SLIDE 27: Cash Flow - Q4 2017 vs Q4 2016

Just a few words on Cash Flow. We had another good quarter in terms of generating cash flow and it's very clear on this slide that operating cash surplus has continued to do really well, BSN medical being a very good contributor here.

Working Capital is positive, we have a net positive contribution of a bit over SEK 400 million from working capital, it's slightly less than you saw last year and if you look at the working capital ratio to sales at the ending point, we were at roughly 5.2 this year and about a percent lower last year.

This is in reality not a change or weakening of efficiency, this has to do with the fact that if you recall, we had a lot of Capex or investments in Q4 2016 that impacted working capital last year.

So, in reality if you look underneath in terms of inventory or accounts payable or receivables or other working capital items we are roughly on the same level in terms of efficiency.

Capital expenditure, SEK 2 billion in the quarter. If you look full-year just over SEK 6 billion; for next year 2018, full year we expect roughly SEK 7 billion for the full Group and that increase is more attributable to phasing so as some of you will remember that we had a higher expectation for 2017 and we have sort of push that over to 2018 so approximately SEK 7 billion.

SLIDE 28: Group – Mature and Emerging Markets

So finally, if you look at this, this is the distribution of sales and profit in emerging and mature markets. Looking back in time, 2015, you can see that the distribution of sales is roughly the same so we were at 36 percent 2015, and today 35 percent in emerging markets so about the same.

But of course, we've also during that time acquired Wausau Paper Corp. and we've also acquired BSN medical with little bit less of emerging market content so underneath we've continued to grow our emerging market business as could be expected. And we have improved margins in both regions if I put it that way and for obvious reasons, innovation and efficiency gains and all the other things that we reported on that's the main reason for the mature market improvement.

If you look at the emerging markets a lot of this of course comes from all the Cure or Kill things that we have initiated and also completed during the period so a very significant improvement in emerging-market margins.

And needless to say, we will have to do much more here on the margin side but it's a good improvement over the last couple of years.

SLIDE 30: Summary 2017

Magnus Groth: Summarizing. We are delivering on topline and on margin improvement, of course we always would like it to go faster and we like to do more but the initiatives that we are working with are really delivering so we'll continue and to the extent necessary also accelerate those initiatives.

We are also continuing our transformation journey, of course last year with the split and BSN medical, this year with the integration of BSN medical, going forward of course we continue to see BSN medical as an important growth platform for further growth both organically and through acquisition.

So, that summarizes 2017 and the fourth quarter. And maybe we can open up for any questions.

SLIDE 31: Q&A

Mikael Jáfs (Kepler Cheuvreux): I have a couple of questions. The first one is around Professional Hygiene and you already mentioned that you have some perhaps not one-offs but something that are closer that, could you please sort of talk about those two and explain why they shouldn't belong items affecting comparability so that we understand that?

Fredrik Rystedt: Yes. The first part the SEK 110 million is the renegotiation so it's an operational issue and that's why we highlight it because this is one-time, it will happen this time; hopefully we'll continue to do things like this but this is a specific event.

Now if you take the second part, which is mainly the release of customer rebates, we provide for customers anticipated customer rebates throughout the year and if we don't need all those provisions we release it at the end of the year.

Needless to say, we don't really want that to happen, we want instead stronger volumes but if we don't reach those stronger volumes then we release it at the end of the year as we have to do.

So, of course none of these are items affecting comparability. They are from a quarter standpoint but not from a yearly.

Mikael Jáfs: Fair enough. And then a second question. Cost inflation is something that you discussed quite extensively, some of your competitors released to the market how they view some of the most important costs items going forward. Are you in the position to do something similar to talk about it a little bit and sort of how do you see the year and the cost-inflation world?

Magnus Groth: The cost-inflation world, we only provide of course some kind of indication about the coming quarter when we expect as Fredrik mentioned significantly higher raw material prices so quarter one that we're in the middle of now will be very tough from that perspective.

Then you have to look at market expectations in general and I guess market expectations have been wrong now for so long so who knows what they're worth.

But I guess there is more of a common view now that this might be that prices are peaking now and then if they will go down or if they will stay at this level, I'm talking now primarily about pulp prices, who knows, we'll see.

We need to do what we can do which is then, increase prices everywhere as much as we can and of course if the price increases we're performing now are not sufficient then we need to do more price increases and continue with our efficiency programs; that's the only thing we can do and so far, I think we're really delivering on that.

Mikael Jáfs: Thanks

Sanath Sudarsan (Morgan Stanley): Two questions from my side. First, how do you see your progression towards your medium-term topline ambition of 3 percent in 2018?

And secondly can you please give us an update on at what stage or what levels your cost saving initiatives are running at this point of time?

Magnus Groth: When it comes to 3 percent growth what we need are two things, maybe one is less discontinuation of businesses.

We are actually close to three percent already if you put back the businesses that we decided to step out of Mexico, India, some Professional Hygiene contracts and so on, so of course that's an important part of it.

Another part is that we need to get pricing. Typically, when we have high growth, a bigger portion of that is pricing than volume; the underlying volumes don't change that much, so pricing will really help us.

And of course, this is a target, we haven't set a specific time when we are planning to achieve the target of 3 percent or our ambition above 3 percent actually but what we need is pricing and fewer discontinuation of businesses.

And then when it comes to our cost programs which is the Cure or Kill, the Tissue Roadmap, and then all the other efforts on going, we have a good momentum as we've seen now so the unusual savings show that the whole organization is really as they go along seeing more opportunities even though as always, the low hanging fruits are gone and it gets more and more difficult going forward of course when it comes to material rationalization and some other areas.

So, on the other hand when we see the headwinds from raw materials that we do today we just need to accelerate that and everybody is very much aware of that in the organization so the plans we already have, we are accelerating. One of the reasons why we are seeing higher savings maybe earlier than we had anticipated.

Sanath Sudarsan: Just to continue, is it fair to say that your cost saving target now has exceeded what you initially thought about in terms of your vision? And secondly, can you also give us some breakup of the raw material discount, how much of that is you know, basically part of your whole cost savings?

Magnus Groth: Well the first one, since we've claimed now for three quarters that we had unusually high savings, of course that means that we were expecting to do less in those quarters but have found more and we are happy about that and that's you know, we don't give any forecast on our cost savings going forward.

We don't have a program that we follow-up because we believe that's detrimental then to how we account for various initiatives in the Company and so on but of course we need to continue to keep a high pace of savings.

Raw material discount, they are typically higher at times when, the underlying prices are high especially I think for us being one of the biggest buyers in the world of some of these commodities. We believe that this helps us comparatively to some competitors, that we are able to get better discount in periods like this.

And that when/if pulp price or other prices come back down again, discount levels could also be lower so there is some correlation there and that's part of explanations why the savings are also so high now.

Oskar Lindström (Danske Bank): I have three questions. First one just a clarification on the one-offs, the SEK 90 million relating to rebates, were those rebates that you got from your suppliers because you had bought more than expected or were they rebates which you didn't have to give to your clients because they had bought less than you had anticipated?

Fredrik Rystedt: We can start with a latter question. It's the rebates that we give so let me take a very simplistic example, if we agree with the customer that the customer will get a bonus or a rebate if that customer sells more than a thousand as an example for the full year, then of course if the customer then sells 999 there will be no rebates and if the customer sells 1010, the customer would get a rebate for the full 1010.

So of course, we may calculation on the assumed volumes by customer, starting on 1st of January so we always provide for these otherwise it would be a very strange fourth quarter so to speak.

But if we don't reach that threshold then we release provisions and we do this every year, it depends very much on the volume development. This year as you've heard, we had a relatively low volume development and also therefore low discounts and we released therefore provisions for our rebates so to speak.

Oskar Lindström: So, you did have some similar type of impact in Q4 last year?

Fredrik Rystedt: Yes. Very small, much smaller.

Oskar Lindström: My second question is a little bit related to the volumes you mentioned. You talk about very tough market conditions in Europe in particular in Consumer Tissue but I suppose it also reflects on the other business areas, could you explain a little bit what you believe is behind these tough market conditions in Europe in particular?

Magnus Groth: We have completely different competitors in Personal Care and Consumer Tissue so starting with Personal Care our volumes are actually quite good in Baby Care and the Incontinence Products in Europe in the quarter, slightly negative which is more of a kind of just quarterly promotional impact in Feminine Care so volume development is not bad in Personal Care even though price pressure has a negative impact specifically in the Incontinence Products part of the business.

We are partly contributing to that because we are launching a lot of new products and promoting those.

But there's also intense kind of promotional actions from all players in all categories and this is also partly related to the fact that retailers are struggling so they are increasing pressure on us; growth is a little bit slower and that all together increases the competitive pressure.

In Consumer Tissue, similar overall market dynamics, somewhat slower growth, there's actually been some capacity additions over the last couple of years when interest rates have been low and margins have been high so a slight unbalance there even though I wouldn't over exaggerate the impact of that.

But then the same pressure from retailers, they did not want to increase their shelf prices and if they need to take significant price increases from their suppliers, of course that puts additional pressure on their margins.

So, that's the fact. And that's made it very difficult to then compensate for the higher raw materials. However, there's always a cyclical element to this both

in Consumer Tissue, to some extent in Personal Care, it takes us a number of quarters after we see continually increasing pulp prices, to recover that in the market.

We will do that but there is a lag of, at it seems this time, four or five quarters, reason for this was that we didn't see these raw material price increases beginning of last year.

We expected raw materials to be quite stable during the year or even decreasing and that's the reason why it takes so long now to push through these price increases but we will be successful in doing that.

Oskar Lindström: And that brings me to my last question which is, you talked at the beginning of the presentation about price increases in the Consumer Tissue segment.

Could you say a little bit about the magnitude or size of those, will you be able to sort of compensate for the raw material increases, that business area has seen during 2017, the price increases that we will get during the course of the first half of 2018, is that it or are those sort of annual price increases?

Magnus Groth: I can't really give you any more detail.

We believe we'll see positive impact from pricing starting with some in the second quarter and then more in the second half of the year. If this is sufficient or not will depend on the development of the pulp prices and we will do what's necessary to compensate over time.

And of course, also, on average and over time, improving our overall margin so even if Consumer Tissue margins are currently at the low at around 8.2 percent, partly also driven by Vinda we believe that our starting point when it comes to margins are much higher than they were five or six years ago due to all the efficiency improvements, the Tissue Roadmap activities that we've undertaken.

So, our starting point for actually moving up through the cycle is much higher than it was a few years ago.

Oskar Lindström: All right but you believe you're at the trough of the cycle now in terms of Tissue margins?

Magnus Groth: I would include the first quarter in that.

Oskar Lindström: Thank you.

Iain Simpson (Société Générale): A couple of questions from me. So firstly, I know things may change but at current spot levels, what sort of raw material inflation should we expect for 2018? It sounds like it's broadly similar to 2017 but I just wondered if I heard that correctly.

And secondly, how should we think about finance and tax for 2018, given the recent changes to your balance sheet but also that the U.S. tax impacted in the fourth quarter? Thank you.

Fredrik Rystedt: The first question, we cannot answer we don't have the possibility to answer that Iain but of course I just want to reiterate what I mentioned earlier that we expect Significantly Higher raw material cost in all business areas both sequentially and year-on-year basis.

So of course, as we've seen in Q4, perhaps the maximum of the impact of the negative price decreases that we have seen on our finished products, we still have some way to go in terms of raw material impact, that's obvious from the slides of the development of raw materials.

So, we cannot quantify that more but you can see from the graph that there is going to be additional impact in all areas.

Iain Simpson: Could give us some help on the likely finance costs and the tax rate that you expect for 2018, please?

Fredrik Rystedt: The finance cost, there is nothing in particular happening. You saw that during this quarter, we continue to amortize so we have a good cash flow generation so nothing in particular relating to the finance cost.

When it comes to the U.S. tax reform, I guess that's part of your question, it's really difficult to see the full impact of that already at this time.

Perhaps as a more general statement we don't expect any sort of significant movement on the tax rate in either direction so to speak.

That may sound counterintuitive given the fact that the tax rate has come down from 35 to 22 percent but there are largely three components within that tax reform, one is very positive, and the two others are not so if you look at our annual report from last year, you will see that we already pay a relatively reasonable tax rate in the U.S. We don't expect a big change. It is going to be roughly the same.

Iain Simpson: Thanks very much and if I could ask a very brief follow-up, it seems to be taking you longer to take pricing in Consumer Tissue to pass through pulp increases than in previous cycles. Why do you think it is taking a little bit longer to get that pricing through?

Magnus Groth: I need to check if that statement is actually correct. The difference here is that, this time we were actually negotiating price decreases at the beginning of last year, 12 months ago, so the switch from what was perceived as a fairly stable raw material environment to one all-time high raw materials happen very quickly and unexpectedly and that's the difference.

So, we need to move from a situation where we quite recently were in negotiations to decrease prices, to significantly increase prices. It's a much steeper curve this time.

Fredrik Rystedt: And in addition, the anticipation was there in the market that pulp prices were going to go down during last year.

Magnus Groth: And this had I think a negative impact on the overall industry, how the industry reacted because there was always this anticipation of pulp prices coming down and that may be delayed the possibility to push through price increases.

Iain Simpson: Thank you.

Linus Larsson (SEB): First question relating to your statement about not only a very challenging raw material situation but you also said that the competitive situation has been tougher than you expected and I just wonder, looking at your restructuring initiatives ongoing, do you find that those are enough or do you need to do something more radical and initiate further initiatives?

And as part of that question, maybe if you could update us on your Tissue Roadmap and what to expect in the next 12 months and whether you will continue to address geographies like you have until now?

Magnus Groth: I think that our financial performance shows that we are winning so we are doing a lot and our programs are up and running and we have very tangible, results to show.

Since we announced the Tissue Roadmap we have actually closed four production sites, numerous paper machines and other equipment because of efficiency improvements in our remaining plants, so really a strong improvement.

And looking forward, of course depending on the price situation and competitive situation we will need to do more and we're in the middle of Tissue Roadmap and we will continue to improve our cost position and also our quality offering so to move to a more premium position.

To take in another perspective, we have taken out approximately net 150,000 tons during this 1.5 years from our own production, however that includes then putting back the new machine that we are planning to install in Mexico, which is growing, a very quickly growing market and then taking into operation again one TAD machine in the U.K. that actually started up now producing very high-quality tissue.

But you know, in spite of that we are really taking action to adjust to market conditions and we will continue to work along these types of measures and initiatives.

Linus Larsson: Great. That sounds good and then just so the question on pricing I think we've spoken mainly about the Consumer Tissue pricing, if you look at the

Professional Hygiene business, could you just talk a bit about what to expect in the first quarter of 2018, please?

Magnus Groth: We believe that we will get more pricing in Professional Hygiene starting in first quarter so to some extent less competitive even though it's also always a challenging market.

And this we base on our increasing pace of innovation, a higher portion of premium product sales and you know, the fact that we have very strong relations with our customers and consumers so we expect to get some pricing here starting in the first quarter and then improving as we move forward through the quarters.

Linus Larsson: Yes, and just to clarify, is it both in the U.S. and in Europe?

Fredrik Rystedt: We have launched in both and there is as always with contracts, a gradual implementation throughout the year.

Linus Larsson: OK, great. Thank you very much.

Celine Pannuti (JP Morgan): My first question coming back on pricing, you'd mentioned the competitive environment including yours in Personal Care, how do you see the overall given that the raw material has substantial risen as well in that part of the business how do you see that unfolding?

I think there was, you mentioned retail being difficult but if I remember well as well institutional was difficult so how should we look at pricing on that front?

Magnus Groth: There is some cyclicity also in Incontinence healthcare because there's typically quite a lag between the time that you submit an offer, a binding bid until the bid is awarded to any player and of course in times of quickly changing raw material prices that leads to a cyclicity and the situation we're in now is that many of the contracts that we are in the middle of now were signed at the time when raw material prices were lower so at lower prices.

What's happening with the contracts be negotiated now, for future signing and delivering, are of course based on the higher on material prices so it's in a similar cycle to tissue, that's tough in the first quarter but then gradually we should see an improvement in price pressure in Personal Care Incontinence healthcare.

Celine Pannuti: OK, and in retail?

Magnus Groth: In retail, it's been very fierce the last couple of quarters and very difficult to see how that will progress.

We are very happy with the traction of the launches that we did in the third and fourth quarter so we feel that we are in a strong position going into next year about but competitive pressure is intense.

Celine Pannuti: OK, my second question is on emerging markets, you mentioned how the margin has risen in emerging markets, I think you know, the benefits from existing some unprofitable countries in the bag.

Having said that if I look into 2018, where could there be further pockets of expansion, I'm thinking maybe Brazil, you will have the plant fully in-stream now and so that should help and how should we look at the Asia, profitability, has there been a hit because of higher raw materials?

Magnus Groth: Absolutely right. We expect to see improvements in Brazil also from a macro perspective that the market has been very subdued while we are ramping up our plant.

The plant it's beautiful, it's in great shape, very efficient. We are gaining market share on the high-value pants part of the market is quite small. We have been more restricting ourselves when it comes to briefs or the open products in Brazil but overall, really good performance and that should continue so that's a good area.

In general, we have an expectation that emerging markets like Latin America should see somewhat better growth this year due to just improved the macroeconomic conditions, let's see if that happens.

Vinda, they have a very ambitious plan for this year, to continue to grow volumes but also to take price increases as they have successfully done for the first time ever actually, here in the third and fourth quarter if necessary.

Celine Pannuti: So, if I look on a midterm perspective, what kind of margin do you think is achievable in emerging markets?

Magnus Groth: It's very difficult to say but I can only give the same general statement that it needs to be of course value-creating profitable growth over time.

We can't just grow to add to the topline, we can't dilute the overall group margins anywhere, all parts of the business need to contribute and that's one of the strong signals internally from the Cure or Kill program.

We can't let something go on forever just because it's growing, it needs to generate value as well and this goes for all parts of our business.

Celine Pannuti: OK, and then my last question is on the tax rate, 2017 saw quite a lower tax rate, is that sustainable?

Fredrik Rystedt: This was a result of the U.S. tax reform, so if you look at the tax rate underneath it's approximately 25 percent or a little lower than that. We expect going forward, roughly in that order of magnitude so approximately 25 or slightly above that perhaps but in that order of magnitude.

Celine Pannuti: Thank you so much.

Karri Rinta (Handelsbanken): Yes, thank you for your follow-ups. Firstly, on this volume rebate or incentive rebates in Professional Hygiene, just so that I understand the dynamics, is it so that you're always in the Q1 you make the provision and then if necessary then you release provision in Q4 or is it you take this provision throughout the year and then only release it in Q4?

Fredrik Rystedt: We provide throughout based on the expected sales of the full year and if the provisions are not necessary because we don't reach thresholds as defined by us and the customer then we release it.

So, there are never any releases in Q1 or Q2, you can say and sometimes there may be a smaller impact in Q3 but normally it's a Q4 issue and yes, so as this year.

Magnus Groth: But to be fair, typical is lower than this year and this depends on us having a better understanding of how the volumes are going to develop together with our customers so this year there's a little bit of a mismatch so don't expect releases like this every year in the fourth quarter.

Ideally of course the releases we should have accrued perfectly in line with the outcomes but sometimes it doesn't match completely.

Karri Rinta: Sure, then secondly these pulp price discounts that you mentioned, that they are positively correlated or if I guess, inversely correlated with bulk prices.

Is there any sort of quarterly seasonality in the discounts, are there some quarters like Q3 when maybe there is a lower level of overall activity that you can get higher discounts and then in the fourth quarter it's may be more difficult to get this same discount, so is there any of that and is there any of that, that we should take into account in the first quarter?

Magnus Groth: Nothing that I'm aware of.

Fredrik Rystedt: Within the savings line that you see here, there is not the absolute discount, it's only the change for the discount that gets in there.

It's very important so let's just assume that, we were to get lower discounts, of course we don't hope that to happen but if that should happen, then of course you will see a negative on this bar so the only thing you see here is increased discount, not the absolute discount because of course they are much bigger, if you understand.

Karri Rinta: Sure, OK. Then finally the price hikes that you now, hopefully get in through in the first half, do you expect any negative impact on your volumes or market share in any segment, maybe specifically in private label, would you be willing to sort of lose some private label volume in order to get through higher prices?

Magnus Groth: We're already seeing that in the fourth quarter, a consequence of the fact that we are very much prioritizing to protect our margins and to increase prices. So, to what extent that will continue is difficult to say but it's already happening.

Karri Rinta: All right, thank you, very helpful. Thanks.

Faham Baig (Credit Suisse): Hi, it's just a couple of questions from me. Magnus, you mentioned that, if you were to get back to the 3 percent, one that will require pricing but also you will need to stop discontinuing some lower profitable businesses.

If I remember you have historically mentioned that the Cure or Kill program is looking to target about 10 percent of your group sales, now where are we in that process?

Secondly, talking about market competitiveness would you say your growth of around 1 percent is broadly in line with your markets and how do you see the market growth into 2018? Thank you.

Magnus Groth: Tricky questions. Yes, correct, in the first phase of Cure or Kill, we had approximately 10 percent of sales included that was given extra attention and 90 percent of those 10 percent had actually improved significantly and really contributed to margin improvement.

However, 10 percent of the 10 percent didn't make it and that's why 10 percent times 10 percent is the 1 percent negative impact on topline. So that's been the math.

We are actually now moving into Cure or Kill phase 2 where we are having higher ambitions and adding businesses then so the positive part of this is that there should be fewer that don't make it so to say, there should be a high proportion that is cured but let's see but that's our ambition of course.

Ideally, we wouldn't like to discontinue any business but to grow and improve all our businesses. Second part, market growth is very difficult. I don't think

we make any predictions about market growth, very difficult to say so sorry about that.

Faham Baig: Thanks.

Chas Manso (Société Générale): Some quick ones for me. On Incontinence Products could you just give us an update on current category growth and therefore what your market shares are doing there?

And you have talked about significant improvements to your U.S. Incontinence Products profitability, how significant was it, what's the margins relative to Europe, is there more to come here from the U.S.?

And then you've been quite bullish on the outlook for BSN medical but the organic sales versus 2.7 percent sounds a bit below original ambitions maybe, could you maybe just talk us through where you see the opportunities both on the topline and the margin for BSN medical going forward?

Magnus Groth: Incontinence Products Europe, last year we saw lower growth than previous years in retail overall and that continued throughout the year so instead of having somewhere around 10 or 10-plus percent we saw growth between 5 and 10 percent overall.

In healthcare, similar unchanged growth to previous years, we've had a positive tender balance and we made that to grow also in healthcare because we have been winning some tenders lately.

In North America we are growing both in healthcare and in retail so very positive development. We have the margins that are sufficient to justify the growth but now we actually need to grow more in order to become more relevant and to really have a sizable presence in the market.

So maybe we are back in North America now, more to grow with the margins that we are have rather than further improving the margins; of course, we always want to do that but that's kind of an overall picture there.

We're bullish about BSN medical. What I said is that it's difficult to say exactly where we expect margins and growth to be going forward especially growth because it's so much related also to market conditions but we see a lot of opportunities both when it comes to growth through cross-selling, we haven't really started that yet, we just did that in a few cases, it's worked successfully, the pilots.

Also, efficiencies in the supply chain, in raw materials, again this is not an acquisition we're doing to cut costs but we are seeing opportunities in efficiencies there so both on growth and on margin improvements.

But to be specific, what will come out of that is more difficult, we don't give those forecasts.

Magnus Groth: Do you want to add anything to that Fredrik?

Fredrik Rystedt: No, it's perfect.

Joséphine Edwall-Björklund: With this it's time to close this press conference. Any final words from you, Magnus?

Magnus Groth: It's been an exciting year. Look forward to 2018 and let's move on, continue with all the projects and programs that we're running and deliver on that. Thank you very much.

Joséphine Edwall-Björklund: Thank you for joining and goodbye.

END