

**Essity Aktiebolag (publ) Half-year Report 2018**  
**Moderator: Magnus Groth**  
**July 19, 2018**  
**9:00 a.m. CET**

**Joséphine Edwall-Björklund:** Hello and welcome to Essity's half-year report press conference for 2018. I'm Joséphine Edwall-Björklund, Head of Communications.

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

*SLIDE 3: Summary Q2 2018 – Q2 2018 vs Q2 2017*

**Magnus Groth:** Thank you, Joséphine. The second quarter of 2018, we saw organic net sales grow with 2.3 percent and we ended up with an adjusted EBITA margin of 11.3 percent. And to summarize, in all the areas that we could influence, we made good progress. We saw better price/mix in all our business areas, strong contributions from efficiency improvements, savings and also strong impact from the continued restructuring that we are doing under the Tissue Roadmap.

Then of course once again, I'm sounding like a broken record. We had significantly higher raw material costs with a negative impact that's unheard of so far, 400 basis points for the group in total. That's equal to 4 percentage points of margin, of course. And as a consequence, we are increasing our efforts in all areas to not only compensate, but of course improve our margins and one of those efforts is that we have an intention to do further price increases in tissue and I'll get back to this.

*SLIDE 4: Financial Summary – Q2 2018 vs Q2 2017*

Some of the financials, maybe the highlight here is the operating cash flow that was 6 percent higher than second quarter last year.

*SLIDE 5: Financial Summary – Q2 2018*

Looking at some of the balance sheet measures, both earnings per share and adjusted earnings per share are higher than second quarter last year and this is,

again, in spite of the significant cost headwinds that we've seen and the very tough trading conditions that we are experiencing in general. We are really adjusting to the conditions and creating value for our shareholders in terms of earnings per share.

*SLIDE 6: Net Sales – Q2 2018 vs Q2 2017*

The net sales bridge where we see a strong contribution from price and mix and this is from all three segments, while volume was slightly negative. All of this comes from Consumer Tissue where we have two impacts. One is the Tissue Roadmap which has meant that we've closed down capacity leading to lower sales of mother reels, which has a significant impact, actually close to 0.6 percentage points. If that would be added back to the 2.3 percent of sales growth that we are presenting, we'd be close to our long-term target of being above 3 percent.

The other impact was that we increased prices in Consumer Tissue in emerging markets, in Latin America and China, to the extent that it had a negative impact on volume and I think this is the right way to go because you only know if you've increased prices enough when you start seeing an impact on volume and with our strong brands, I'm very confident that we can find the balance between volume growth and margins going forward. And we've had a fantastic margin improvement for instance in China, in Vinda here, that really shows that this has been the right way to go in Consumer Tissue.

And then some smaller benefits from acquisitions in Latin America, a couple of small acquisitions and currency.

*SLIDE 7: Adjusted EBITA – Q2 2018 vs Q2 2017*

The adjusted EBITA bridge, again strong contributions in price/mix while the volume contribution was lower. Then of course the main theme when it comes to the market conditions in the quarter is that raw materials developed even more unfavorably than we had expected and if you remember, we already said when we presented the first quarter that we were expecting significantly higher raw material costs across the line, both sequentially and the quarter over last year's quarter and that happened.

And the sum, as you can see here, the overall group impact again, 4 percentage points, Personal Care 270 basis points. We used to see this as a huge impact, but of course now looking at the Consumer Tissue there on the next line where the impact is 670 basis point, so 6.7 percentage points negative impact on our tissue margins. You can really see what we've been able to mitigate to a large extent and what we are facing currently in the trading environment. So negative impact from raw materials on all our three segments. And then, very good cost savings and I'll get back to that in a minute.

*SLIDE 8: Raw Material Development*

But before leaving raw materials, we always talk about what we expect the following quarter and the easiest way to really think about this is to look at the development in the previous quarter and compare it to a year ago and see if you can extrapolate that forward.

And our analysis is that again we'll see significantly higher raw material costs in all areas, in all segments, in the third quarter compared to the second quarter and compared to the third quarter last year. No change there, and this does not only apply to the raw materials that you see here, recycled fiber and pulp, it also goes for oil based material, so across the line. This is what we are expecting in the third quarter.

*SLIDE 9: Strong Contribution from Efficiency Improvements – Q2 2018 vs Q2 2017*

Back to the savings and the number that we show in the EBITA bridge is the savings in Cost of Goods Sold, COGS. And to give some more background and detail on those savings. We talk a lot about Tissue Roadmap and when we do that, we refer mostly to the restructuring measures that we also announced publically which means closure of production capacity, headcount reduction and many of the closures that we have done recently have been paper machines which means that the semi-finished goods, the mother reel volumes have come down. And that is what has the negative impact on volumes in line with our strategy because this is the low-margin business that we want to get out of.

But very positive in the quarter, we saw significant contributions from operational efficiency improvement, which means that in our primary plants where we focus and we were investing for the long term, we are working more efficiently. We are lowering the cost per ton of product produced in many different ways. This goes not only for Consumer Tissue, but equally for Personal Care where we are also making good progress. And the same with material rationalization where we are seeing maybe even bigger benefits in Personal Care than in Consumer Tissue meaning that we are using the raw materials in a more efficient way and we are also being able to qualify other lower cost materials for use in our production. These are very tangible long-term structural cost benefits that we are achieving.

And then sourcing savings, a very important area for us, which is getting more difficult in some areas because of the shortage of some raw materials. We discussed that last quarter and we are seeing that those sourcing savings are still coming, but at a lower rate than previous quarters.

In addition to the COGS savings that we are presenting every quarter, we also work to lower our costs across the business everywhere. And just to show some examples where we had progress in the second quarter: travel, hiring costs, office costs, headcount reduction in SG&A and also improved A&P efficiency, altogether contributing to a reduction of our SG&A as percentage of sales of 30 basis points. This is also contributing and if I remember correctly, our SG&A is now down to 17.8 percent in the second quarter. So we are not only working with COGS, but with costs across the line.

*SLIDE 10: Innovate Bigger Brands – Six Innovations Launched in Q2 2018*

Innovations, shortly many of the innovations here are focused on light incontinence and on feminine care and this is part of our program to really increase our competitiveness in these categories and especially where we are now competing since several years, as you know, with P&G in light incontinence. So very much focused in that area and in the area between feminine care and incontinence care, and we will support these launches with important and strong launch programs in the next couple of quarters.

*SLIDE 11: Personal Care – Q2 2018 vs Q2 2017*

Looking more closely at each of the three segments.

Personal Care, organic net sales increased 2.4 percent with contributions both from volume and price/mix and an adjusted EBITA margin that is down slightly to 14 percent. Positive additions to the margin include mix, a very good performance in Medical Solutions, a growth over 3 percent, but also a very good improvement in margins compared to the same quarter last year and the first quarter last year.

Typically, we see stronger performance in the second half of the year in Medical Solutions. And some of the issues that we discussed last quarter regarding emerging markets, Asia Pacific and so on are easing, so we are doing progress in most of those areas and that's immediately visible also in the margins of Medical Solutions.

Strong growth in Feminine Care and difficult market conditions in Baby Care. As you can also see there in the organic net sales per product segment down in the right-hand corner with fantastic 10 percent growth in Feminine Care, but conversely negative 5.7 percent in Baby Care and all of that is in emerging markets where trading conditions are very difficult.

And also in Personal Care, this is easy to forget, we talk so much about pulp costs, but actually also the oil-based materials and other materials like chemicals are all getting more expensive with a negative impact of 270 basis points quarter over last year's quarter and most of that we were able to mitigate, but not all of it.

*SLIDE 12: Consumer Tissue – Q2 2018 vs Q2 2017*

Consumer Tissue where we also saw an organic net sales increase of 1.7 percent, but with a big drop in volume, minus 1.7 percent, positive price/mix, so exactly in line with our strategy that we've stated that in this category margin is our number one priority and growth comes second. Then of course within the category, we are very much focused on our strong brands and stepping out of unprofitable private label contracts, mother reels sales, etcetera.

And as you can see, higher prices in Asia, Europe and Latin America. In Latin America and in Asia to the extent that we actually had a negative volume impact, so we will balance that in the rest of the year and in Europe we had a small improvement also from price and mix in the quarter. But as we have stated all along, we expect that the price increases that we achieved in the first quarter would have a gradual impact in the second quarter and then full impact in the second half of the year and this is still what we are expecting.

In spite of this, we are now actually already embarking on a second round of price increases because there is a higher acceptance of this in the market and of course a big need for it. This second round will only have a slight impact this year and mostly then in the coming year 2019, I think that's important to underline.

And as you can see there, unheard of negative impact from raw material, 670 basis points. If you would add that back to the 8 percent margin that we had, of course we would have a fantastic value creating business. This is what we are striving for to improve the underlying structural profitability of this segment so that we will catch up and then improve our margins in this category and segment going forward.

*SLIDE 13: Professional Hygiene – Q2 2018 vs Q2 2017*

And finally, Professional Hygiene, another good quarter. Organic net sales growing 3 percent coming from both volume and a very healthy price/mix. Improved margin to 14.1 percent due to higher price and better mix in Europe and North America. Also in emerging markets as you can see, they are growing again 12.3 percent, so excellent growth.

And in this case, we were able to overcome the raw material headwinds of 180 basis points and even improved margins. A very strong performance in Professional Hygiene also in line with our strategy.

*SLIDE 14: Initiatives –Acting with Our Customers*

Finally, before summarizing some initiatives during the quarter, we continue to work together with the United Nations, United Nations Foundation and different organizations within the United Nations to promote the 17

Sustainability Goals. This is very appreciated by our customers. We jointly attend meetings in New York over the last couple of years and this quarter also in Geneva with European customers. So very well received by our customers.

We have set new ambitions for People and Circularity, some of our sustainability goals focused on the three pillars; “Well-being”, “More from less” and “Circularity”. Circularity of course with the discussion about plastics and so on is moving up on our agenda like everywhere else.

And just quite fun fact to end with, the U.S. space agency, NASA, has awarded a contract to Essity to develop the compression garments that the astronauts will use in 2024, I believe, for the Orion Deep-Space Mission. So that's quite cool I think that we are working in this area. Strong co-branding there.

*SLIDE 15: Summary Q2 2018 – Q2 2018 vs Q2 2017*

To summarize again then, I think we've been through this a couple of times. Please have a look at the picture there to the right. It shows one small benefit of the acquisition of BSN medical joining that with the marketing skills of Essity where you can see a new line of compression stockings with a much more modern look and feel than what we used to see from JOBST. And this is part of the kind of intangible, but important benefits of the acquisition of BSN medical that is performing very well.

With that I end this presentation and let's open up for questions. Fredrik, do you want to join?

*SLIDE 16: Q&A*

**Mikael Jåfs (Kepler Cheuvreux):** Hello, a couple of questions. You talked a little bit about upcoming price increases. Could you try to describe a little bit how is the market functioning right now. I mean, are you the only one or is it broad based, what are the clients saying? To give us some color and flavor on that process.

**Magnus Groth:** Of course this differs by segments, but focusing in then on Consumer Tissue initially, in Europe, we have a mix of contracts. Some are annual, some are just running contracts and then there is a difference between private label and the branded products. We are trying to increase prices or our intention is to increase prices everywhere we can. So, for this year it will be on part of the volumes with most of the impact next year. But very soon after summer we'll start with annual negotiations on some significant branded volumes for next year.

But we are speeding up and moving forward negotiations in this area and we have also achieved some further price increases that will impact the next year already now, so that's already negotiated and agreed. And this means, of course, that the entire industry has the same need. Otherwise it wouldn't work. So, there is a strong need for price increases in Consumer Tissue in Europe very clearly.

And then in the emerging markets, we have already increased prices to the extent that it has a negative impact on our volume growth and we will rebalance that going forward with promotions, etcetera, to find a way forward with profitable growth. We want to keep that improved margins that we achieved, but continue to grow volume as well.

In Personal Care, it differs by category where we have been successful in increasing prices, especially in Feminine Care, not so much in Baby Care, that's challenging in general, and in Incontinence Products in retail we are also progressing and the price pressure most importantly may be in incontinence health care has decreased over the last couple of quarters. So that's also looking slightly more positive. Of course, this is then an improvement in pricing that can only be achieved as contracts come up for re-tendering. So that's a gradual process.

**Mikael Jåfs:** And then last question from me. You mentioned there that you were able to offset the high raw materials in Professional Hygiene. Why does it seem to be easier to do within that segment versus, let's say, Consumer Tissue?

**Fredrik Rystedt:** Yes, I don't think it's fair to say it's easy. It's not easier, but of course the mechanics of the market is slightly different because as we work differently also with service contracts with longer-term relationship. So typically, if you look back in time, you have normally seen a slight price uptick in every year so to speak. There is a better structure of that market and we've been able to do that. And then of course the impact of the virgin pulp is much, much less. We still have virgin pulp also within Professional Hygiene, but to a much lesser degree than we have in Consumer Tissue. So recovered fiber is much more common. It's not easy, but it's slightly easier to increase prices historically and that's also the case now, and of course the raw material impact is much, much lower.

**Magnus Groth:** If I could add to that. Tork is a business to business brand that's incredibly strong. We are the global market leader with a 20 percent global market share, and we are selling more than just tissue, we are selling systems including the dispenser. So, it's another logic as Fredrik also mentioned from that perspective. While in the Consumer Tissue, we've the mix also of brands that are super strong, some of that are less strong, private label and so on. So that also makes it easier in Professional Hygiene.

**Linus Larsson (SEB):** Good morning and thank you very much for taking my questions. First may be further to the previous discussion on price/mix and I think it's encouraging to see that you indeed have a price/mix improvement year-on-year 2.4 percent in the second quarter. But you also said that there is some gradual spill over yet to come from what you have achieved in price negotiations. Could you share some more detail on that? Should we expect the price/mix to be up at the same magnitude or rather somewhat more in the third and/or fourth quarters?

**Fredrik Rystedt:** Thank you, Linus. Of course, as Magnus already alluded to, we have initiated discussions on continued price increases and we also have some left, so to speak, as we have already communicated last quarter of the initiated price increases that we've already done. So yes, there will be more in Q3 and Q4. The magnitude is always very difficult to say, Linus, but we expect further price increases in Q3 and additional also in Q4. Having said that, of course, just to point out the obvious, you have seen from the graph shown by Magnus

that we also have raw material hikes that continue to be very strong or cost increases that continues to be there. So for us, as long as price increases on pulp are there or on oil based material, we need to continue to increase prices. So yes, we expect further price increases to come in Q3 and Q4. The magnitude is difficult to estimate.

**Linus Larsson:** That's helpful, thank you. I interpret your answer as you expect sequential Group price/mix improvement in Q3 as well as Q4. Is that the case in all 3 Business Areas?

**Fredrik Rystedt:** We are normally not that specific, Linus. And it varies a lot between both business area, geography and category. So, as an overall intention is of course to do exactly as you say, intention to sequentially increase prices, yes. But not, we haven't specified on individual areas. The obvious area where price increases are needed, you can clearly see that's Consumer Tissue, but we also have, as Magnus alluded to, very significant impact on Personal Care.

**Linus Larsson:** And then may be a related question, you are obviously quite selective in your business approach and you've given up some lower-margin volumes. Will you make new initiatives there as well to cut back on lower-margin businesses? And second to that, what is your current mother reel net balance for the group?

**Magnus Groth:** So first question, the Tissue Roadmap program is continuing. We have previously stated that we have moved forward much, much faster than we expected than when we launched the program early 2016. We have done maybe the easier things, but with the current pulp prices and market conditions, this program continues. But we have come past the halfway mark of when it comes to restructuring, I'm quite convinced. But there could be more initiatives coming, also depending on the development of pulp prices and recycled fiber prices and so on. So, we were not done with that yet. And then your second question was our mother reel balance, so we are still slightly long on mother reels, but much less than we used to be. We are much more balanced and in some areas, we are also net buyer of mother reels.

**Linus Larsson:** OK. And do you have an intention to become neutral or slightly short to remain somewhat long on mother reels? Do you have a strategic target in that regard?

**Magnus Groth:** Yes. And that's mostly based then on being as cost efficient as possible, which means that we want to have integrated mills with both paper production and converting, that's a very important component of the Tissue Roadmap. And that should then eventually lead to the perfect situation where every mill is fully balanced, that will never happen. But that's what we are moving towards because there's a big cost disadvantage of having to transport the mother reels from the paper machine to the converting equipment. So that's our long-term ambition. And when you see the shutdowns that we have done over the last quarters, in the second quarter when we closed the La Riba mill in Spain, that was a singular paper machine without any converting capacity, for instance. And in another Spanish mill, we closed one small old-paper machine so that that mill became completely integrated volume wise between the paper capacity and the converting capacity. So that's what we are striving for.

**Linus Larsson:** Excellent, that's very helpful. Thank you very much.

**Stellan Hellström (Nordea):** Hi, thanks for taking my question. First on your price increases in Consumer Tissue in Europe. Would you at all expect volumes to be affected negatively as you've seen in emerging markets?

**Magnus Groth:** We already see a negative volume impact on the mother reels again and also partly on private label volumes. But actually, that is compensated, the private label volumes, by a good growth in our branded Consumer Tissue business in Europe, also exactly in line with our strategy. We are very happy about that development.

**Stellan Hellström:** OK. Also coming back to the question of price increases, may be the second round of price increases so to say, you say that you still expect to see some effects already this year. Have these even a possibility to be material or how fast can you implement those?

**Fredrik Rystedt:** Yes, I think Magnus already alluded to. Generally, for branded assortment in Europe, we control pricing much more, we can increase prices quicker. When you look at the private label side, which is approximately about half of our European business, then we are bound by the expiration of the contract. It's a little bit different, but we will have some impact during particularly latter part of the year, but of course most during next year.

**Stellan Hellström:** OK. Then also on Baby Care, if you can just elaborate little bit on weakness here. How much is due to just weak markets and tougher competition and if you see any signs of easing maybe in light of higher raw material costs?

**Magnus Groth:** The volume decline that we saw in the second quarter, it's all related to emerging markets; for us that would be then Latin America, Russia, Eastern Europe and some Asian markets. And when growth come down, competition increases. So, there's an increasing push for volume and this is what we are seeing, it's intense competition basically. So, what we are doing is that we have complete overhauls of our assortments ongoing in these emerging markets moving more towards premium and super premium offering.

This takes time and what we've seen over the last year or so is that we are growing really nicely in the higher margin premium and super premium segments, but that's not enough to offset the volume drops that we are experiencing in the value segment. And this is across the line. And so it's our strategy, but of course we would prefer not to see these volume declines and we are working also to re-launching in the value and premium part of the markets in emerging markets.

And to improve our cost position, this is essential in all categories, but very much so in Baby Care in the long-term to be competitive there.

I also want to emphasize that in mature markets, in Europe, we are doing really well. It's a very value contributing category for us. But we need to fix the issues in the emerging markets.

**Stellan Hellström:** Ok Thanks. Those were all my questions.

**Oskar Lindström (Danske Markets):** Good morning. Four questions from my side. First, on these Consumer Tissue price increases. When you sort of announced these, are you going into it with the ambition of recovering all of the raw material cost increases? Is that sort of your starting point when you announce price increases?

**Magnus Groth:** The starting point is to get as much pricing as we can and ideally, I was going to say we want to not only recover, but improve our margins of course. Or you could actually express it in another way, we don't like giving away the improvements that we are achieving in our cost structure by lowering our production costs in all of the ways that we have presented previously. We want to keep some of that for ourselves, of course, and ensure improving margins in Consumer Tissue. So that's very much the case. But if you look back one year or two years, we still have some ways to go to kind of recover, of course, the margin levels that we had when pulp prices were lower. So, we are still in recovery mode, but that's not our long-term objective.

**Oskar Lindström:** You would say that the momentum for price increases in Consumer Tissue in Europe in general is good?

**Magnus Groth:** Yes, absolutely. We believe that also because of the fact that many of our competitors in Europe have lower margins than we have to start with. They are in as much need of price increase as we are or even more so.

**Oskar Lindström:** My second question is around organic growth in the quarter. You mentioned in the report an impact of Tissue Roadmap restructuring on Consumer Tissue during the quarter. Were those new actions or simply things which were made sort of in previous quarters?

**Fredrik Rystedt:** It's a combination, Oskar. It's basically the shutdown. The main impact by far from Tissue Roadmap is related to the reduction in mother reels as Magnus mentioned there, it would have been 2.9 percent basically without the organic sales growth. And this is, of course, a combination of things that have gradually been implemented and of course also announced the restructuring.

**Oskar Lindström:** All right. And have you taken also actions in the Medical Solutions segment, which have reduced organic growth?

**Magnus Groth:** No, not really. Our efforts are more. We did end of last year to sort out some issues in mostly in Latin America. Of course, we had Venezuela at the time and some other very difficult market like Brazil. That's all improving now and we are focusing more on getting back to growth with the structure that we have. We have done that, but that's not our emphasis or focus going forward.

**Oskar Lindström:** I think that it ticks-out my third question. But the final question then is the status of M&A, I mean, do you feel that you have sort of the Medical Solution segment and the integration under control, and then have a good enough balance sheet and outlook to be ready for further acquisitions, let's say, during the second half of this year and starting next year? Can you be proactive or is it going to be more if something comes up for sale?

**Magnus Groth:** So we are committed to the plan that we announced at the time of the acquisition of BSN, which means that we are right now in the phase of strengthening our balance sheet and committed to our solid investment grade rating, which means that throughout this year that's our main focus as we have stated for a long time now. And as we get out of that into next year, then we will start looking at acquisitions again. Of course, we are already looking at opportunities now. But that's when we will be back in shape to start also doing acquisitions.

**Fredrik Rystedt:** And maybe the assessment, Oskar, was also at the time of acquisition was that this is a very fragmented industry, much more fragmented than the rest of all the businesses we are in. And so, there are many opportunities for acquisitions and of course all those opportunities still remain. There are many possibilities.

**Oskar Lindström:** All right. Thank you.

**Ian Wood (Redburn):** Hi, just two from my side. So just if I could start off with Personal Care. I wonder if you could give us more color on the breakout between price and mix in the quarter. If I look at the dropdown to profit from the price/mix you achieved, it doesn't really seem to have fallen down. So, I wonder if there was

more mix impact in there than price. That was the first question. And then on the second question, can we talk a little bit about the restructuring that you are doing? I know we have talked about the Tissue Roadmap extensively. Could you talk a little bit about the level of cash, how much cash is going to be consumed by the Tissue Roadmap going forward? Is it going to be a similar level or less than previously relative to the amount booked in the income statement?

**Fredrik Rystedt:** I can maybe start with the first question, Ian, because I think Magnus mentioned that it's a mix of a lot of different things. We have experienced price competition on, for example, Incontinence health care previously which has now become milder as Magnus alluded to. And we still have some price competition in various categories and we've raise prices in others, so it's a mix. But if you sum up all of that, of the components of price and mix, it's basically all mix. So, pricing is on balance on average for all of Personal Care largely flat and the rest is basically mix. So, it's a very positive mix improvement in all parts of Personal Care. The second question, I guess I can take that too. The cash of Tissue Roadmap as we go forward, we still have, as we have announced, some restructuring measures that we have announced, but still not executed. Of course, there's some CAPEX coming from the napkin restructuring in Italy that we have announced, etcetera. There's still some cash remaining from the already announced. And as Magnus has said, of course, in history we've done a lot of restructuring. We are sort of past the half way there, so over time it will become less.

**Ian Wood:** Ok. Thank you.

**Faham Baig (Credit Suisse):** Hi guys, two questions from me as well. Firstly, on your growth of Consumer Tissue in emerging markets, could you help me breakout the growth by Asia, LATAM and Eastern Europe, just to identify where the biggest sequential deceleration was felt?

And then secondly in Europe, could you help me understand the industry dynamics shorter term because I believe there were increasing capacity coming into Southern Europe and also Eastern Europe as well? Do we still expect them to come on board? Have they been delayed or canceled? Could

you give us an update on that? And I believe Turkey is a market where there is significant overcapacity currently as well. Are we seeing paper and tissue travel from Turkey? And finally, on that front, like you said earlier in the call, your peers are finding it even more difficult than you guys, so do you expect to see further consolidation in the market?

**Magnus Groth:** Let me start. When it comes to Consumer Tissue in the emerging markets, we don't provide that level of detail really, the price/mix versus volume in the different emerging markets. But in general, we had much lower volumes and very good margin improvement. So that's the general message actually in all of these areas and we will rebalance that going forward and since we are working with #1 brands in all those markets, we feel very convinced that we can find that balance going forward. When it comes to the new capacities coming in, most of that is coming in during this year and as we speak, so in Spain, in Portugal, and we believe that kind of this has been accounted for in our plans because, remember, we have taken out a lot of capacity also and there have been some smaller shutdowns also from other players.

We believe that that's kind of accounted for in our intentions to continue to raise prices going forward. And of course, many of the announced plans for further capacity additions from our competitors have been shelved or postponed. So, we don't see any new projects, but rather the opposite that projects that have been discussed have been canceled or delayed. And then further consolidation, I don't know, so difficult to answer actually. I don't have an answer to that question. We will not take part in any further consolidation. We have a very strong market position in the markets where we are active in Consumer Tissue.

**Faham Baig:** Do you expect more companies to go bust, to put it bluntly?

**Magnus Groth:** I don't know, we haven't seen anything so far. It's not something we are expecting in our plans. The capacity will still be there and someone will be running those paper machines and converting lines. So even if they do, it doesn't really help is the history. And then I forgot about Turkey and that overcapacity has been there for several years now and there is an ongoing import of mother reels from Turkey to Europe, especially to the U.K. in the

last couple of years. It's something that's also already accounted for and we don't expect that to change going forward.

**Fredrik Rystedt:** There has been a lot of discussions on this capacity and it has some impact, but if you actually look at the demand and the supply and the growth and the development between those, the differences aren't huge. So, in 2017 it was about a percent or in that order of magnitude between demand and supply. These are just estimates, but in that order of magnitude. And we expected also a small oversupply in comparison to demand for 2018. Now it's more unclear as Magnus said, some are postponing or even canceling. Looking forward perhaps in 2019, there is no expectancy at least now for an oversupply in comparison to demand. Things are clearly developed in that sense to the better.

**Faham Baig:** Ok. Thanks.

**John Ennis (Goldman Sachs):** Good morning, just a couple of outstanding questions from me. The first one was on the Baby Care business. I wondered if you could call out any individual countries that were the big negative driver for your Baby Care performance and I wondered if you think that your Cure or Kill list will grow in this segment if competition remains at such high levels? And then the second question was just on the fact that you cited improved A&P efficiency. I wondered how much has it reduced as a percentage of sales and what your full year outlook was.

**Magnus Groth:** Yes. A&P, if I'm correct, reduced this from 5.4 to 5.2 Q2 over last year's Q2. So that accounts for a big part of the SG&A savings, but we also have SG&A savings in all other areas as I already presented. Then when it comes to the Baby Care details, this is not our plan to do further cure or kill in Baby Care. Actually, part of this volume drop is a little bit of that because we had a Baby Care business in Central America that we pulled out of a few quarters ago, that is partly impacting this minus five percent that you saw there. So, we have taken some further measures, but in the remaining markets, so very much with Familia in Colombia and the adjoining countries, we are very much focused on fighting back on relaunching our assortment and adding some new premium products.

And same for Russia and Eastern Europe and then in Asia where of course this is run by Vinda, so I will not get into too much detail. There were some other reasons because Vinda's Malaysian Baby Care business where we are the market leader is actually performing quite well, but there were some specific Malaysian issues with the introduction of a new tax and there was an election and some other reasons really leading to the volume drop. And then in China, as you know, we are not really focusing on the baby category in Personal Care. We are much more focused behind Incontinence Products and Feminine Care.

**John Ennis:** OK, that's all very helpful. And then on the A&P for the full year, do you think sort of 5.2 percent as a percentage of sales is a reasonable estimate?

**Fredrik Rystedt:** I think we will have, John, we will have a slightly higher A&P spend during the rest of the year.

**Magnus Groth:** We have a lot of good innovations that we are launching that we want to support properly.

**John Ennis:** Ok. Thank you very much.

**Rosie Edwards (Berenberg):** Good morning. Just a couple from me, one just to clarify. Just in terms of your intention obviously to pursue further price increases in Consumer Tissue, am I right in thinking that you're just talking about your, you're not necessarily talking about emerging markets?

**Magnus Groth:** In emerging markets we are much more flexible. We have already increased prices substantially to the extent that we actually see margin improvements in many emerging markets for us in spite of then the much, much higher raw material costs. So, in the emerging markets we are more prioritizing finding a balance, keeping these margins, but growing faster. And then in Europe it's more cumbersome, we have the big strong retailers, we have the mix of brand and private label and different contract forms.

**Rosie Edwards:** OK, fine. And then so this is a technical one. Because it seems like despite slightly weaker sort of operating profit levels versus consensus, the EPS is ahead from what I can see. I think that's due to minority interests which were a lot lower in the quarter. Can you just explain that?

**Fredrik Rystedt:** The minority interest was lower in the quarter. The minority interest is basically consisting of the joint ventures and for us the bigger parts there are Familia and Vinda. Those are the major contributors and we never normally comment specifically on the performance of those individually for obvious reasons, but of course they are the main contributors on that line.

**Rosie Edwards:** Ok. Thank you.

**Martin Melbye (ABGSC):** Good morning. Could you say something about the margin level difference between the private label and branded goods now compared to 2, 3, 5 years ago.

**Magnus Groth:** It's much bigger than one year ago and two years ago because it has been easier to protect margins on our branded assortment than on private label over the last couple of years. And we don't expect this to continue. Margins have to come up also in private label because most of our competitors are pure private label players in Consumer Tissue. I think they are under a lot of pressure right now, but this has been the trend recently and of course that's also why we are focusing so much on our own brands and launching innovations in that area. But that has been the trend, but I believe that that's, to a large extent, related to the higher pulp prices and the new capacities that have come in over the last couple of years and that should correct itself going forward. There should, of course, be a margin difference between brand and private label, but not as high as it is today.

**Martin Melbye:** And on these price increases from the competitors, I have seen one which was 7 percent in the second half. What are you seeing there, if you summarize?

**Magnus Groth:** We don't go into that level of detail. It's a nice number that you have there.

**Martin Melbye:** OK, good, thank you.

**Joséphine Edwall- Björklund:** Good. So that was the final question. Magnus, do you want to mention anything about the Investor Day?

**Magnus Groth:** Thank you, Joséphine, for reminding me. I nearly forgot.

We are planning to have an Investor Day here in Stockholm on the 5th of December. Make a note in your almanacs and very welcome. Thank you for listening today.

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

**END**