Interim Report Q3 2018

Essity Aktiebolag (publ)

essity

JANUARY 1 – SEPTEMBER 30, 2018

(compared with the corresponding period a year ago)

- Net sales increased 8.4% to SEK 87,388m (80,601)
- Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.4%
- Organic net sales increased 2.8%, excluding the lower sales of mother reels due to production closures
- Operating profit before amortization of acquisition-related intangible assets (EBITA) declined 10% to SEK 8,085m (8,953)
- Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 3% to SEK 9,484m (9,786)
- Higher raw material and energy costs had a negative impact of SEK 3,268m on earnings
- Adjusted EBITA margin decreased 1.2 percentage points to 10.9% (12.1)
- Adjusted profit before tax decreased 6% to SEK 8,026m (8,562)
- Profit for the period decreased 14% to SEK 4,935m (5,719)
- Earnings per share decreased 14% to SEK 6.38 (7.44)
- Adjusted earnings per share decreased 5% to SEK 8.35 (8.77)
- Cash flow from current operations decreased 6% to SEK 5,714m (6,055)
- During the third quarter a Group-wide cost-savings program was launched. The expected annual cost savings amount to approximately SEK 900m.

EARNINGS TREND

SEKm	1809	1709	%	2018:3	2017:3	%
Net sales	87,388	80,601	8	29,647	27,178	9
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	9,484	9,786	-3	3,016	3,432	-12
Operating profit before amortization of acquisition-related intangible assets (EBITA)	8,085	8,953	-10	2,005	3,396	-41
Amortization of acquisition-related intangible assets	-537	-379		-187	-161	
Adjusted operating profit[1]	8,947	9,407	-5	2,829	3,271	-14
Items affecting comparability	-1,404	-919		-1,016	-34	
Operating profit	7,543	8,488	-11	1,813	3,237	-44
Financial items	-921	-845		-332	-275	
Profit before tax	6,622	7,643	-13	1,481	2,962	-50
Adjusted profit before tax[1]	8,026	8,562	-6	2,497	2,996	-17
Tax	-1,687	-1,924		-403	-740	
Profit for the period	4,935	5,719	-14	1,078	2,222	-51
Earnings per share, SEK	6.38	7.44		1.41	2.98	
Adjusted earnings per share, SEK[2]	8.35	8.77		2.67	3.17	

[1]Excluding items affecting comparability; for amounts see page 12.

[2]Excluding items affecting comparability and amortization of acquisition-related intangible assets.

SUMMARY OF THIRD QUARTER OF 2018

The Group's net sales increased 9.1% for the third quarter of 2018 compared with the corresponding period a year ago and earnings per share amounted to SEK 1.41.

The third quarter of 2018 was challenging as the negative impact from raw material and energy costs has accelerated further. On the whole, these factors negatively impacted our margins in the short term, despite higher selling prices, a better mix and costs savings in all business areas.

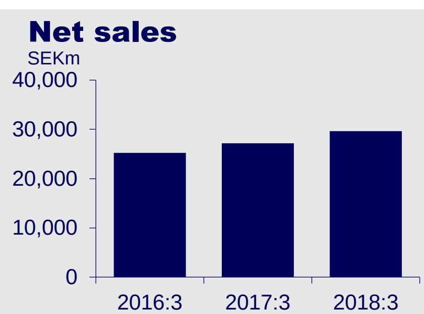
To increase profitability, we are implementing measures in several areas:

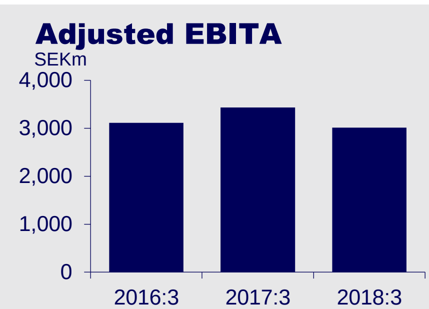
- We continue to invest in our strong brands and launched 13 innovations during the quarter that strengthened our customer and consumer offering.
- Within Consumer Tissue, we have initiated negotiations regarding further price increases that are primarily expected to impact 2019. For some contracts in Europe, additional price increases have already been implemented with gradual effect in the fourth quarter of 2018. Activities to increase prices are also ongoing in Personal Care and Professional Hygiene.
- We are intensifying our efficiency improvements and restructuring of the business. We have decided on further restructuring measures as part of "Tissue Roadmap" and are continuing our work with "Cure or Kill".
- During the quarter, we launched a Group-wide cost-savings program that is in addition to the ongoing efficiency activities in the company. As a result of further measures within the scope of this program, the expected annual cost savings are being increased by approximately SEK 100m to approximately SEK 900m, with full effect at the end of 2019. The program includes headcount reductions of approximately 1,000 positions. The restructuring costs are expected to amount to approximately SEK 700m. The costs are expected to impact cash flow and be recognized as an item affecting comparability in 2019.
- To strengthen competitiveness and increase efficiency, we are also making changes to the company's organizational structure and Executive Management Team. The two units, Global Hygiene Supply Tissue and Global Hygiene Supply Personal Care, will be merged into one unit under the name Global Manufacturing with responsibility for production and technology. A new unit under the name Global Operational Services will be created with the purpose to further strengthen the Group's overall work related to operational and cost efficiency. The unit will encompass sourcing, logistics, business services and digitalization. The number of corporate functions will be reduced from six to four.

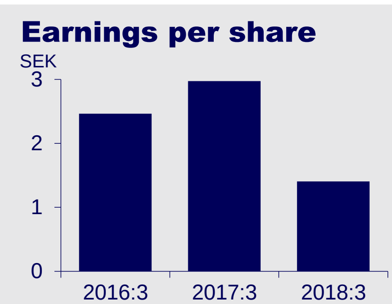
Organic net sales, excluding the lower sales of mother reels, increased 2.5%, of which volume accounted for -0.1% and price/mix for 2.6%. Including the lower sales of mother reels, organic sales increased 1.6%, of which volume accounted for -1.0% and price/mix for 2.6%. Organic net sales was positively impacted by higher prices and a better mix in all business areas. In emerging markets, which accounted for 35% of net sales, organic net sales increased 4.3% while the decrease in mature markets was 0.1%.

The Group's adjusted EBITA in the third quarter of 2018 declined 12% compared with the corresponding period a year ago. Earnings were positively impacted by higher prices and a better mix in all business areas, higher volumes and cost savings amounting to SEK 180m. Our work to achieve cost savings continued but the high level of cost savings in the year-earlier period impacted the reported increase in the quarter. Higher raw material and energy costs had a negative impact of SEK -1,418m on earnings, which corresponds to a negative impact on the adjusted EBITA margin of -5.1 percentage points. The market price for pulp is about 30% higher compared with the corresponding period a year ago. The market price of oil-based raw materials has also increased significantly. Furthermore, higher distribution costs had a negative impact on earnings. The Group's adjusted EBITA margin decreased 2.4 percentage points to 10.2%. The adjusted return on capital employed was 11.0%, and adjusted return on equity was 13.7%. Operating cash flow increased 4%.

Essity has been included in the Dow Jones Sustainability Index, one of the world's most prestigious sustainability indices. Essity has qualified for inclusion in both the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index, and has also been named industry leader in the Household Products sector.







Excluding items affecting comparability; for amounts see page 12.

ADJUSTED EARNINGS TREND

SEKm	1809	1709	%	2018:3	2017:3	%
Net sales	**87,388**	80,601	8	**29,647**	27,178	9
Cost of goods sold[1]	-62,484	-56,663		-21,416	-18,949	
Adjusted gross profit[1]	**24,904**	23,938	4	**8,231**	8,229	0
Sales, general and administration[1]	-15,420	-14,152		-5,215	-4,797	
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	**9,484**	9,786	-3	**3,016**	3,432	-12
Amortization of acquisition-related intangible assets[1]	-537	-379		-187	-161	
Adjusted operating profit[1]	**8,947**	9,407	-5	**2,829**	3,271	-14
Financial items	-921	-845		-332	-275	
Adjusted profit before tax[1]	**8,026**	8,562	-6	**2,497**	2,996	-17
Adjusted tax[1]	-2,092	-2,165		-670	-745	
Adjusted profit for the period[1]	**5,934**	6,397	-7	**1,827**	2,251	-19

[1] Excluding items affecting comparability; for amounts see page 12.

Adjusted margins (%)						
Gross margin[1]	**28.5**	29.7		**27.8**	30.3	
EBITA margin[1]	**10.9**	12.1		**10.2**	12.6	
Operating margin[1]	**10.2**	11.7		**9.5**	12.0	
Financial net margin	-1.1	-1.0		-1.1	-1.0	
Profit margin[1]	**9.1**	10.7		**8.4**	11.0	
Tax[1]	-2.4	-2.7		-2.3	-2.7	
Net margin[1]	**6.7**	8.0		**6.1**	8.3	

[1]Excluding items affecting comparability; for amounts see page 12.

ADJUSTED EBITA BY BUSINESS AREA

SEKm	1809	1709	%	2018:3	2017:3	%
Personal Care	4,702	4,398	7	1,565	1,556	1
Consumer Tissue	2,491	3,184	-22	635	1,023	-38
Professional Hygiene	2,756	2,660	4	970	1,023	-5
Other	-465	-456		-154	-170	
Total[1]	**9,484**	9,786	-3	**3,016**	3,432	-12

[1] Excluding items affecting comparability; for amounts see page 12.

ADJUSTED OPERATING PROFIT BY BUSINESS AREA

SEKm	1809	1709	%	2018:3	2017:3	%
Personal Care	4,193	4,062	3	1,387	1,404	-1
Consumer Tissue	2,490	3,179	-22	635	1,022	-38
Professional Hygiene	2,729	2,621	4	960	1,014	-5
Other	-465	-455		-153	-169	
Total[1]	**8,947**	9,407	-5	**2,829**	3,271	-14

[1]Excluding items affecting comparability; for amounts see page 12.

OPERATING CASH FLOW BY BUSINESS AREA

SEKm	1809	1709	%	2018:3	2017:3	%
Personal Care	4,329	4,013	8	1,755	1,699	3
Consumer Tissue	1,858	2,756	-33	475	246	93
Professional Hygiene	2,678	2,788	-4	1,352	1,539	-12
Other	-464	-722		-127	-147	
Total	**8,401**	8,835	-5	**3,455**	3,337	4

GROUP

MARKET/EXTERNAL ENVIRONMENT

January–September 2018 compared with the corresponding period a year ago

The European and North American markets for incontinence products in the healthcare sector displayed higher demand, although with continued price pressure as a result of fierce competition. The retail markets showed good growth but with a continued high level of competition. Emerging markets noted higher demand. The global market for medical solutions demonstrated stable growth. In Europe, demand for baby care and feminine care was stable. In emerging markets, demand increased for baby care and feminine care. The global market for baby care and several markets for feminine care were characterized by increased competition and campaign activity.

The European market for consumer tissue demonstrated low growth. The Chinese consumer tissue market noted higher demand.

The European and North American markets for professional hygiene displayed low growth.

NET SALES AND EARNINGS

January–September 2018 compared with the corresponding period a year ago

Net sales increased 8.4% compared with the corresponding period a year ago to SEK 87,388m (80,601). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.4%, of which volume accounted for 0.4% and price/mix for 2.0%. Organic net sales increased 0.8% in mature markets and increased 4.9% in emerging markets. Emerging markets accounted for 35% of net sales. Exchange rate effects increased net sales by 3.0%. Acquisitions increased net sales by 3.0%, of which the acquisition of BSN medical accounted for 2.4% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 0.6%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) declined 3% (12% excluding currency translation effects and acquisitions) to SEK 9,484m (9,786). Higher prices, a better mix, higher volumes, cost savings and the acquisition of BSN medical had a positive impact on earnings. Cost savings amounted to SEK 767m. Higher raw material and energy costs had a negative earnings effect of SEK -3,268m. Furthermore, higher distribution costs had a negative impact on earnings. The acquisition of BSN medical increased profit by 3%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

Items affecting comparability amounted to SEK -1,404m (-919) and include costs of approximately SEK -1,370m related to restructuring measures at production facilities in Professional Hygiene and Consumer Tissue. Impairments in the associate Asaleo Care had an impact of SEK -260m on items affecting comparability. Acquisitions relating to the increase in the shareholding in associates in Latin America positively impacted items affecting comparability by SEK 165m. A reversal of a provision for foreign tax of a non-recurring nature on non-current assets outside Sweden had a positive impact of SEK 260m on items affecting comparability. Other costs negatively impacted items affecting comparability by SEK -199m.

Financial items increased to SEK -921m (-845). The increase is primarily due to higher average net debt. Lower interest had a positive impact on financial items during the period.

Adjusted profit before tax decreased 6% (15% excluding currency translation effects and acquisitions) to SEK 8,026m (8,562).

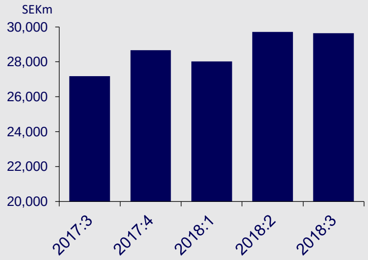
The tax expense, excluding effects of items affecting comparability, was SEK 2,092m (2,165).

Adjusted profit for the period decreased 7% (16% excluding currency translation effects and acquisitions) to SEK 5,934m (6,397).

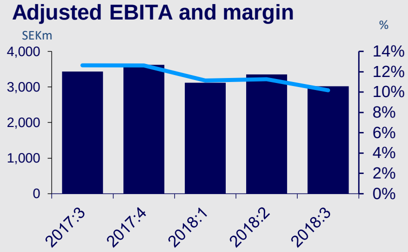
Profit for the period decreased 14% (23% excluding currency translation effects and acquisitions) to SEK 4,935m (5,719). Earnings per share were SEK 6.38 (7.44). The adjusted earnings per share were SEK 8.35 (8.77).

The adjusted return on capital employed was 12.4% (15.3). The adjusted return on equity was 17.6% (18.7).

Net sales



Adjusted EBITA and margin



Excluding items affecting comparability

Change in net sales (%)

	1809 vs 1709	18:3 vs 17:3
Total	**8.4**	**9.1**
Price/mix	2.0	2.6
Volume	0.4	-1.0
Currency	3.0	6.8
Acquisitions	3.0	0.7
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1809 vs 1709	18:3 vs 17:3
Total	**-3**	**-12**
Price/mix	14	21
Volume	4	1
Raw materials	-32	-37
Energy	-1	-4
Currency	4	9
Other	8	-2

Adjusted profit before tax

Excluding items affecting comparability

Third quarter of 2018 compared with the corresponding period a year ago

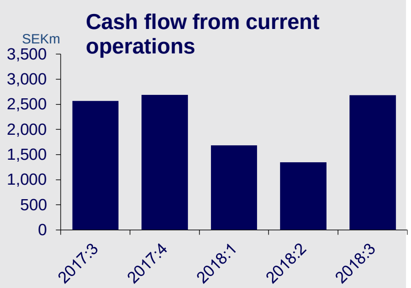
Net sales increased 9.1% compared with the corresponding period a year ago to SEK 29,647m (27,178). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.6%, of which volume accounted for -1.0% and price/mix for 2.6%. Higher prices and a better mix in all business areas had a positive impact on organic net sales. Volumes increased in Personal Care and Professional Hygiene. In Consumer Tissue, volumes declined partly due to restructuring measures within the scope of the Tissue Roadmap, entailing lower sales of mother reels, and partly due to lower volumes in Asia due to price increases. Organic net sales decreased 0.1% in mature markets and increased 4.3% in emerging markets. Emerging markets accounted for 35% of net sales. Exchange rate effects increased net sales by 6.8%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.7%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 12% (22% excluding currency translation effects and acquisitions) to SEK 3,016m (3,432). Earnings were positively impacted by higher prices and a better mix in all business areas, higher volumes and cost savings amounting to SEK 180m. Our work to achieve cost savings continued but the high level of cost savings in the year-earlier period impacted the reported increase in the quarter. Higher raw material and energy costs had a negative impact of SEK -1,418m on earnings, which corresponds to a negative impact on the adjusted EBITA margin of -5.1 percentage points. The market price for pulp is about 30% higher compared with the corresponding period a year ago. The market price of oil-based raw materials has also increased significantly. Furthermore, higher distribution costs had a negative impact on earnings.

Adjusted profit before tax declined 17% (28% excluding currency translation effects and acquisitions) to SEK 2,497m (2,996).

Profit for the period declined 51% (62% excluding currency translation effects and acquisitions) to SEK 1,078m (2,222). Earnings per share were SEK 1.41 (2.98). The adjusted earnings per share were SEK 2.67 (3.17).

The adjusted return on capital employed was 11.0% (13.8). The adjusted return on equity was 13.7% (20.0).



CASH FLOW AND FINANCING

January–September 2018 compared with the corresponding period a year ago

The operating cash surplus amounted to SEK 13,624m (13,512). The cash flow effect of changes in working capital was SEK -1,671m (-1,150). Current capital expenditures amounted to SEK -2,863m (-2,670). Operating cash flow was SEK 8,401m (8,835).

Financial items increased to SEK -921m (-845). The increase is primarily due to higher average net debt. Lower interest had a positive impact on financial items during the period. Income tax payments totaled SEK 1,851m (2,110). Cash flow from current operations amounted to SEK 5,714m (6,055) during the period.

Strategic capital expenditures amounted to SEK -1,746m (-1,383). The net sum of acquisitions and divestments was SEK -681m (-25,907). Dividends to shareholders impacted cash flow by SEK -4,354m (-220). Net cash flow totaled SEK -1,064m (-20,590).

Net debt increased by SEK 1,383m compared with the same point in time last year and amounted to SEK 54,495m. The increase is attributable to exchange rate movements that increased net debt by approximately SEK 2.9bn. During the January-September 2018 period, net debt has increased by SEK 2,028m. Excluding pension liabilities, net debt amounted to SEK 52,420m. Net cash flow increased net debt by SEK 1,064m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, reduced net debt by SEK 1,159m. Exchange rate movements increased net debt by SEK 2,123m.

The debt/equity ratio was 1.02 (1.17). Excluding pension liabilities, the debt/equity ratio was 0.98 (1.10). The debt payment capacity was 25% (24). Net debt in relation to adjusted EBITDA amounted to 2.95 (2.94).

EQUITY

January–September 2018

The Group's equity increased by SEK 4,068m during the period, to SEK 53,638m. Net profit for the period increased equity by SEK 4,935m. Equity decreased by SEK 4,354m on account of the dividend to shareholders. Equity increased net after tax by SEK 877m as a result of fair value measurement of pension assets and updated assumptions and assessments that affect the valuation of the pension liability. Fair value measurement of financial instruments increased equity by SEK 304m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 2,300m. Other items increased equity by SEK 6m.

TAX

January–September 2018

A tax expense of SEK 2,092m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 26.1% for the period. The tax expense including items affecting comparability was SEK 1,687m, corresponding to a tax rate of 25.5% for the period.

EVENTS DURING THE QUARTER

Essity restructures in France

On July 31, 2018, Essity announced that the company is restructuring its Consumer Tissue production in France in order to further strengthen competitiveness and increase efficiency. Essity is closing a converting facility for retail branded products in Saint-Etienne-du-Rouvray and investing in the remaining integrated production facilities in France. The closure is expected during the fourth quarter of 2018. These measures are aligned with the company's strategy to optimize the production footprint to increase cost and capital efficiency and further increase value creation in the Consumer Tissue business area. The restructuring costs of SEK 495m were recognized as an item affecting comparability in the third quarter of 2018.

Essity associate Asaleo Care recognizes impairments in half-year report

On August 21, 2018, Essity announced that Asaleo Care Ltd, a hygiene company listed on the Australian Securities Exchange, published its 2018 half-year report. Essity owns about 36% of Asaleo Care, with the holding recognized as an associate. Impairments were recognized in Asaleo Care's half-year report 2018. As a result, Essity recognized an item affecting comparability of approximately SEK -260m in the third quarter of 2018.

Essity industry leader in Dow Jones Sustainability Index

On September 13, 2018, Essity announced that the company had been included in the Dow Jones Sustainability Index, one of the world's most prestigious sustainability indices. Essity has qualified for inclusion in both the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index, and has also been named industry leader in the Household Products sector. Essity received high scores for its brand work, its innovations, its environmental and social reporting, its work with suppliers and its strategy for emerging markets.

Essity continues the optimization of its production in the United States

On September 18, 2018, Essity announced that the company would be closing its converting facility in Bellemont, Arizona, United States, in order to further increase the efficiency of the Professional Hygiene business. The closure will be completed in the second half of 2019 without any disruption to customers. Production will be reallocated to other Essity production facilities in the United States. The measures are aligned with the company's strategy to optimize the production footprint to improve cost and capital efficiency and further increase value creation in the Professional Hygiene business area. The restructuring costs amounted to approximately SEK 125m and were recognized as an item affecting comparability in the third quarter of 2018.

Essity reduces costs to increase profitability and competitiveness

On September 28, 2018, Essity announced that the company would be introducing a Group-wide cost-savings program to increase profitability and strengthen the Group's long-term cost efficiency. As a result of further measures within the scope of this program, the expected annual cost savings are being increased by approximately SEK 100m to about SEK 900m, with full effect at the end of 2019. The cost savings are compared with the cost level of September 30, 2018. The program includes headcount reductions affecting approximately 1,000 positions. The restructuring costs are expected to amount to approximately SEK 700m. The costs are expected to impact cash flow and be recognized as an item affecting comparability in 2019.

The cost-savings program is being implemented in all parts of the Group to reduce the cost base related to cost of goods sold and sales, general and administration costs. The program will include headcount reductions and reduced costs for projects, consultants and travel. The program that is now being launched is in addition to the efficiency initiatives already in progress in the Group, such as “Tissue Roadmap” and “Cure or Kill”.

EVENTS AFTER THE QUARTER

Essity presents new organization

On October 29, 2018. Essity announced that the company to strengthen its competitiveness and increase its efficiency, implements the following changes to the company’s organizational structure and Executive Management Team:

- The two units Global Hygiene Supply Tissue and Global Hygiene Supply Personal Care will be merged into one unit under the name Global Manufacturing, with responsibility for production and technology.
- The unit Global Hygiene Category, with responsibility for customer and consumer brands as well as innovation, will also encompass sustainability and public affairs. The unit will be renamed Global Brand, Innovation and Sustainability.
- A new unit, Global Operational Services, is being created that will encompass sourcing, logistics, business services and digitalization.
- Group Function Sustainability & Public Affairs is being integrated with Global Brand, Innovation and Sustainability. Group Function Strategy & Business Development is being integrated with Group Function Finance.

The changes entail that the number of members of the Executive Management Team is being reduced from 14 to 12 and that the number of staff functions is being reduced from six to four. The organizational changes will take effect on December 31, 2018.

PERSONAL CARE

SEKm	1809	1709	%	2018:3	2017:3	%
Net sales	**33,639**	29,755	13	**11,408**	10,449	9
Adjusted EBITA*	**4,702**	4,398	7	**1,565**	1,556	1
Adjusted EBITA margin, %*	**14.0**	14.8		**13.7**	14.9	
Adjusted operating profit*	**4,193**	4,062	3	**1,387**	1,404	-1
Adjusted operating margin, %*	**12.5**	13.7		**12.2**	13.4	
Adjusted return on capital employed, %*	**15.3**	23.6		**14.8**	16.0	
Operating cash flow	**4,329**	4,013		**1,755**	1,699	

*) Excluding restructuring costs, which are reported as items affecting comparability outside of the business area.

January–September 2018 compared with the corresponding period a year ago

Net sales increased 13.0% to SEK 33,639m (29,755). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.9%, of which volume accounted for 2.5% and price/mix for 0.4%. Organic net sales in mature markets increased 2.3%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 3.9%. Acquisitions increased net sales by 7.6%, of which the acquisition of BSN medical accounted for 6.6% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 1.0%. Exchange rate effects increased net sales by 2.5%.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 4.3%. Growth was related to emerging markets, North America and Western Europe. For Baby Care, organic net sales decreased 2.4%. The decrease was related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 8.1%. The increase was related to both emerging markets and Western Europe.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 7% (declined 8% excluding currency translation effects and acquisitions) to SEK 4,702m (4,398). The increase was mainly related to higher volumes, cost savings and the acquisition of BSN medical. Higher raw material and energy costs, lower prices and higher distribution costs negatively impacted earnings. Acquisitions increased profit by 9%, of which the acquisition of BSN medical accounted for 8% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 1%.

The operating cash surplus amounted to SEK 5,758m (5,290).

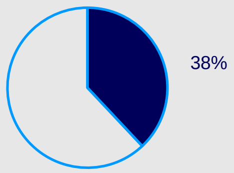
Third quarter of 2018 compared with the corresponding period a year ago

Net sales increased 9.2% to SEK 11,408m (10,449). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.2%, of which volume accounted for 1.2% and price/mix for 1.0%. Organic net sales in mature markets increased 0.8%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 4.1%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 1.1%. Exchange rate effects increased net sales by 5.9%.

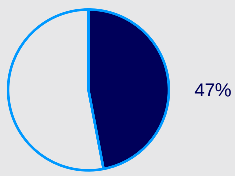
For Incontinence Products, with the globally leading TENA brand, organic net sales increased 4.1%. Growth was related to emerging markets, North America and Western Europe. Growth in Europe and North America was attributable to both the retail trade and the healthcare sector. For Medical Solutions, organic net sales decreased 0.9%. The decrease was mainly related to inventory adjustments among customers in North America. For Baby Care, organic net sales decreased 2.7% mainly related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 7.6% mainly related to higher prices and higher volumes in Latin America.

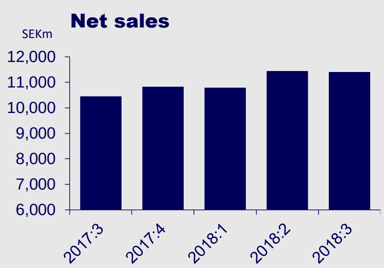
Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 1% (decreased 12% excluding currency translation effects and acquisitions) to SEK 1,565m (1,556). Higher volumes, higher prices and a better mix as well as cost savings positively impacted earnings. Higher raw material and energy costs negatively impacted profits by SEK -346m, which corresponds to a negative impact on the adjusted EBITA margin of -3.2 percentage points. Market prices for pulp and oil-based raw materials increased substantially. Higher distribution costs also negatively impacted earnings. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

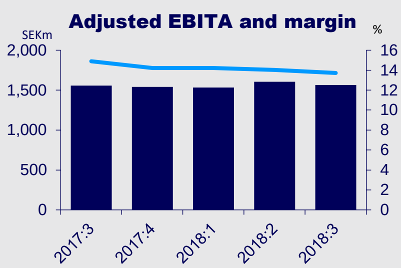
Share of Group, net sales
1809



Share of Group, adjusted EBITA
1809







Change in net sales (%)

	1809 vs 1709	18:3 vs 17:3
Total	**13.0**	**9.2**
Price/mix	0.4	1.0
Volume	2.5	1.2
Currency	2.5	5.9
Acquisitions	7.6	1.1
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1809 vs 1709	18:3 vs 17:3
Total	**7**	**1**
Price/mix	-1	5
Volume	10	7
Raw materials	-18	-22
Energy	0	-1
Currency	6	11
Other	10	1

CONSUMER TISSUE

SEKm	1809	1709	%	2018:3	2017:3	%
Net sales	**33,031**	30,988	7	**10,912**	10,066	8
Adjusted EBITA*	**2,491**	3,184	-22	**635**	1,023	-38
Adjusted EBITA margin, %*	**7.5**	10.3		**5.8**	10.2	
Adjusted operating profit*	**2,490**	3,179	-22	**635**	1,022	-38
Adjusted operating margin, %*	**7.5**	10.3		**5.8**	10.2	
Adjusted return on capital employed, %*	**7.6**	10.6		**5.5**	9.8	
Operating cash flow	**1,858**	2,756		**475**	246	

*) Excluding restructuring costs, which are reported as items affecting comparability outside of the business area.

January–September 2018 compared with the corresponding period a year ago

Net sales increased 6.6% to SEK 33,031m (30,988). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.9%, of which volume accounted for -1.2% and price/mix for 3.1%. The increase was mainly attributable to Asia and Europe. Organic net sales increased 0.2% in mature markets. In emerging markets, which accounted for 43% of net sales, organic net sales increased by 3.7%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.4%. Exchange rate effects increased net sales by 4.3%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 22% (24% excluding currency translation effects and acquisitions) to SEK 2,491m (3,184). Higher prices and a better mix as well as cost savings positively impacted earnings. Higher raw material and energy costs, lower volumes and higher distribution costs negatively impacted earnings. The substantially higher raw material costs were mainly the result of higher pulp prices.

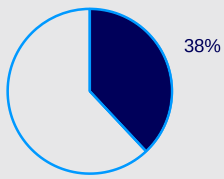
The operating cash surplus totaled SEK 4,171m (4,720).

Third quarter of 2018 compared with the corresponding period a year ago

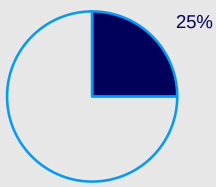
Net sales increased 8.4% to SEK 10,912m (10,066). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 0.1%, of which volume accounted for -4.1% and price/mix for 4.2%. The price/mix was positively impacted by higher prices in Asia, Europe and Latin America. The lower volumes were partly the result of restructuring measures within the scope of Tissue Roadmap, entailing lower sales of mother reels and partly lower volumes in Asia due to price increases. Organic net sales decreased 1.4% in mature markets. In emerging markets, which accounted for 44% of net sales, organic net sales increased by 2.0%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.6%. Exchange rate effects increased net sales by 7.7%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 38% (46% excluding currency translation effects and acquisitions) to SEK 635m (1,023). Earnings were positively impacted by higher prices and a better mix as well as cost savings. Selling prices were higher in Asia, Europe and Latin America. Higher raw material and energy costs negatively affected earnings by SEK -840m, corresponding to a negative impact on the adjusted EBITA margin of -8.3 percentage points. The substantially higher raw material costs were mainly the result of higher pulp prices. The market price for pulp is about 30% higher compared with the corresponding period a year ago. Higher distribution costs and lower volumes also negatively affected earnings. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

Share of Group, net sales 1809

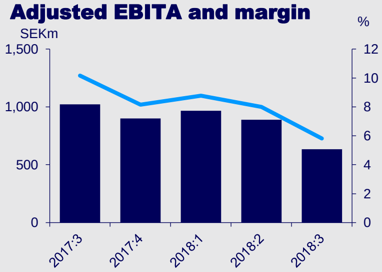


Share of Group, adjusted EBITA 1809



Net sales

Adjusted EBITA and margin



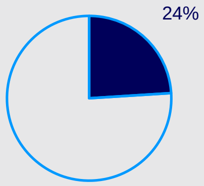
Change in net sales (%)

	1809 vs 1709	18:3 vs 17:3
Total	**6.6**	**8.4**
Price/mix	3.1	4.2
Volume	-1.2	-4.1
Currency	4.3	7.7
Acquisitions	0.4	0.6
Divestments	0.0	0.0

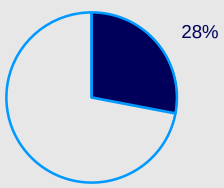
Change in adjusted EBITA (%)

	1809 vs 1709	18:3 vs 17:3
Total	**-22**	**-38**
Price/mix	30	44
Volume	-1	-7
Raw materials	-63	-74
Energy	-2	-9
Currency	2	8
Other	12	0

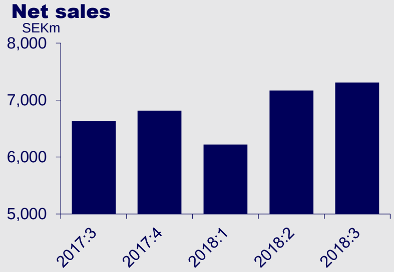
Share of Group, net sales 1809



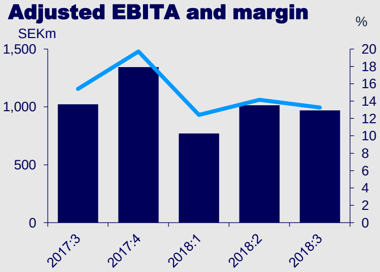
Share of Group, adjusted EBITA 1809



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1809 vs 1709	18:3 vs 17:3
Total	**4.1**	**10.1**
Price/mix	2.5	2.6
Volume	-0.4	0.3
Currency	1.9	7.1
Acquisitions	0.1	0.1
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1809 vs 1709	18:3 vs 17:3
Total	**4**	**-5**
Price/mix	17	18
Volume	0	0
Raw materials	-14	-19
Energy	-1	-4
Currency	3	7
Other	-1	-7

PROFESSIONAL HYGIENE

SEKm	1809	1709	%	2018:3	2017:3	%
Net sales	**20,695**	19,884	4	**7,309**	6,635	10
Adjusted EBITA*	**2,756**	2,660	4	**970**	1,023	-5
Adjusted EBITA margin, %*	**13.3**	13.4		**13.3**	15.4	
Adjusted operating profit*	**2,729**	2,621	4	**960**	1,014	-5
Adjusted operating margin, %*	**13.2**	13.2		**13.1**	15.3	
Adjusted return on capital employed, %*	**19.9**	18.1		**17.9**	20.7	
Operating cash flow	**2,678**	2,788		**1,352**	1,539	

*) Excluding restructuring costs, which are reported as items affecting comparability outside of the business area.

January–September 2018 compared with the corresponding period a year ago

Net sales increased 4.1% to SEK 20,695m (19,884). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.1%, of which volume accounted for -0.4% and price/mix for 2.5%. The increase was primarily related to Europe, Asia and Latin America. Organic net sales decreased 0.5% in mature markets. Organic net sales increased in Western Europe while it decreased in North America. In emerging markets, which accounted for 19% of net sales, organic net sales increased 12.3%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.1%. Exchange rate effects increased net sales by 1.9%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 4% (0% excluding currency translation effects and acquisitions) to SEK 2,756m (2,660). The increase was primarily attributable to higher prices, a better mix, higher volumes and cost savings. Higher raw material and energy costs as well as higher distribution costs had a negative impact on earnings.

The operating cash surplus was SEK 4,077m (3,904).

Third quarter of 2018 compared with the corresponding period a year ago

Net sales increased 10.1% to SEK 7,309m (6,635). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.9%, of which volume accounted for 0.3% and price/mix for 2.6%. The increase was primarily related to Asia, Europe and Latin America. The price/mix was positively impacted by higher prices in Asia, Europe, Latin America and North America. Organic net sales increased 0.3% in mature markets. Organic net sales increased in Western Europe while it decreased in North America. In emerging markets, which accounted for 20% of net sales, organic net sales increased 13.0%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.1%. Exchange rate effects increased net sales by 7.1%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 5% (12% excluding currency translation effects and acquisitions) to SEK 970m (1,023). Higher prices, a better mix, higher volumes and cost savings had a positive impact on earnings. Higher raw material and energy costs had a negative impact on earnings of SEK -233m, which corresponds to a negative impact on the adjusted EBITA margin of -3.4 percentage points. In addition, higher distribution costs negatively impacted earnings.

DISTRIBUTION OF SHARES

September 30, 2018	Class A	Class B	Total
Registered number of shares	64,082,813	638,259,676	702,342,489

At the end of the period, the proportion of Class A shares was 9.1%. The total number of votes in the company amounts to 1,279,087,806.

FUTURE REPORTS

The Year-end Report for 2018 will be published on January 31, 2019. Essity's Annual Report for 2018 is intended to be published in the week beginning March 11, 2019.

In 2019, interim reports will be published on April 25, July 18 and October 25.

INVESTOR DAY

Essity has changed the date for its Investor Day in Stockholm to May 23, 2019.

ANNUAL GENERAL MEETING

Essity's Annual General Meeting will be held in Stockholm on April 4, 2019.

INVITATION TO PRESS CONFERENCE ON INTERIM REPORT Q3 2018

Media and analysts are invited to a press conference, where this interim report will be presented by Magnus Groth, President and CEO.

Time: 9:00 a.m. CET, Monday, October 29, 2018
Location: Essity's headquarters, Waterfront Building, Klarabergsviadukten 63, Stockholm, Sweden

The presentation will be webcast at www.essity.com. To participate by telephone, call: +44 (0) 207 192 80 00, +1 631 510 74 95 or +46 8 506 921 80. Specify "Essity" or conference ID no. 6358697.
Link to webcast: https://essity.videosync.fi/2018-10-29-q3

Stockholm, October 29, 2018
Essity Aktiebolag (publ)

Magnus Groth
President and CEO

For further information, please contact:

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NB:

This information is such information that Essity Aktiebolag (publ) is obligated to make public pursuant to the EU Market Abuse Regulation. This report has been prepared in both Swedish and English versions. In case of variations in the content between the two versions, the Swedish version shall govern. The information was submitted for publication, through the agency of the contact person set out below, at 7:00 a.m. CET on October 29, 2018. This interim report was not reviewed by the company's auditors.

Karl Stoltz, Media Relations Manager, +46 8 788 51 55

CONDENSED STATEMENT OF PROFIT OR LOSS

SEKm	2018:3	2017:3	2018:2	1809	1709
Net sales	**29,647**	27,178	29,721	**87,388**	80,601
Cost of goods sold[1,2]	-21,416	-18,949	-21,104	-62,484	-56,663
Items affecting comparability[1,2]	-773	28	-181	-1,508	-544
Gross profit	**7,458**	8,257	8,436	**23,396**	23,394
Sales, general and administration[1]	-5,221	-4,835	-5,279	-15,464	-14,274
Items affecting comparability[2]	-238	-64	152	109	-289
Share of profits of associates and joint ventures	6	38	11	44	122
Operating profit before amortization of acquisition-related intangible assets	**2,005**	3,396	3,320	**8,085**	8,953
Amortization of acquisition-related intangible assets[1]	-187	-161	-181	-537	-379
Items affecting comparability[2]	-5	2	0	-5	-86
Operating profit	**1,813**	3,237	3,139	**7,543**	8,488
Financial items	-332	-275	-299	-921	-845
Profit before tax	**1,481**	2,962	2,840	**6,622**	7,643
Tax	-403	-740	-709	-1,687	-1,924
Profit for the period	**1,078**	2,222	2,131	**4,935**	5,719
Earnings attributable to:					
Owners of the parent	988	2,090	2,035	4,483	5,227
Non-controlling interests	90	132	96	452	492
Average no. of shares before dilution, millions	702.3	702.3	702.3	702.3	702.3
Average no. of shares after dilution, millions	702.3	702.3	702.3	702.3	702.3
Earnings per share, SEK - owners of the parent					
- before dilution effects	1.41	2.98	2.90	6.38	7.44
- after dilution effects	1.41	2.98	2.90	6.38	7.44
[1]Of which, depreciation	-1,577	-1,417	-1,530	-4,564	-4,197
[2]Of which, impairment	-239	18	-19	-556	-369
Gross margin	**25.2**	30.4	28.4	**26.8**	29.0
EBITA margin	**6.8**	12.5	11.2	**9.3**	11.1
Operating margin	6.1	11.9	10.6	8.6	10.5
Financial net margin	-1.1	-1.0	-1.0	-1.1	-1.0
Profit margin	**5.0**	10.9	9.6	**7.5**	9.5
Tax	-1.4	-2.7	-2.4	-1.9	-2.4
Net margin	**3.6**	8.2	7.2	**5.6**	7.1
Excluding items affecting comparability:					
Gross margin	**27.8**	30.3	29.0	**28.5**	29.7
EBITA margin	**10.2**	12.6	11.3	**10.9**	12.1
Operating margin	9.5	12.0	10.7	10.2	11.7
Financial net margin	-1.1	-1.0	-1.0	-1.1	-1.0
Profit margin	**8.4**	11.0	9.7	**9.1**	10.7
Tax	-2.3	-2.7	-2.5	-2.4	-2.7
Net margin	**6.1**	8.3	7.2	**6.7**	8.0

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

SEKm	2018:3	2017:3	2018:2	1809	1709
Profit for the period	**1,078**	2,222	2,131	**4,935**	5,719
Other comprehensive income for the period					
Items that may not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	597	-74	561	1,160	1,460
Income tax attributable to components of other comprehensive income	-104	21	-172	-283	-393
	493	-53	389	877	1,067
Items that have been or may be reclassified subsequently to the income statement					
Financial assets measured at fair value through comprehensive income	0	0	0	-1	1
Cash flow hedges	234	112	224	394	-107
Translation differences in foreign operations	-1,500	-1,169	635	2,639	-1,563
Gains/losses from hedges of net investments in foreign operations	287	-346	416	-422	-1,379
Other comprehensive income from associated companies	1	-14	-5	10	-20
Income tax attributable to components of other comprehensive income	-124	54	-146	-6	332
	-1,102	-1,363	1,124	2,614	-2,736
Other comprehensive income for the period, net of tax	**-609**	-1,416	1,513	**3,491**	-1,669
Total comprehensive income for the period	**469**	806	3,644	**8,426**	4,050
Total comprehensive income attributable to:					
Owners of the parent	718	860	3,402	7,725	4,106
Non-controlling interests	-249	-54	242	701	-56

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	1809	1709
Attributable to owners of the parent		
Opening balance, January 1	42,289	33,204
Effect attributable to change accounting standard IFRS 9	-9	0
Tax effect attributable to change accounting standard IFRS 9	2	0
Total comprehensive income for the period	7,725	4,106
Dividend	-4,038	0
Transaction with owner (Svenska Cellulosa Aktiebolaget SCA)	0	842
Private placement to non-controlling interest	2	504
Private placement to non-controlling interest, dilution	0	-290
Closing balance	**45,971**	38,366
Non-controlling interests		
Opening balance, January 1	7,281	6,376
Total comprehensive income for the period	701	-56
Dividend	-316	-219
Private placement to non-controlling interest	1	465
Private placement to non-controlling interest, dilution	0	290
Acquisition of non-controlling interests	0	80
Closing balance	**7,667**	6,936
Total equity, closing balance	**53,638**	45,302
[1]Specification of transaction with owner (Svenska Cellulosa Aktiebolaget SCA)[1]		
Received contribution/given contribution	0	793
Tax effects	0	49
Total	0	842

CONSOLIDATED OPERATING CASH FLOW STATEMENT

SEKm	1809	1709
Operating cash surplus	13,624	13,512
Change in working capital	-1,671	-1,150
Current capital expenditures, net	-2,863	-2,670
Restructuring costs, etc.	-689	-857
Operating cash flow	**8,401**	8,835
Financial items	-921	-845
Income taxes paid	-1,851	-2,110
Other	85	175
Cash flow from current operations	**5,714**	6,055
Acquisitions	-682	-25,932
Strategic capital expenditures in non-current assets	-1,746	-1,383
Divestments	1	25
Cash flow before dividend	**3,287**	-21,235
Private placement to non-controlling interest	3	27
Dividend to non-controlling interests	-316	-220
Dividend	-4,038	0
Transactions with shareholders	0	838
Net cash flow	**-1,064**	-20,590
Net debt at the start of the period	**-52,467**	-35,173
Net cash flow	-1,064	-20,590
Remeasurement to equity	1,159	1,462
Translation differences	-2,123	1,189
Net debt at the end of the period	**-54,495**	-53,112
Debt/equity ratio	**1.02**	1.17
Debt payment capacity, %	**25**	24
Net debt / EBITDA	**3.09**	3.12
Net debt / Adjusted EBITDA	**2.95**	2.94

CONSOLIDATED CASH FLOW STATEMENT

SEKm	1809	1709
Operating activities		
Profit before tax	6,622	7,643
Adjustment for non-cash items[1]	5,439	4,414
	12,061	12,057
Paid tax	-1,851	-2,110
Cash flow from operating activities before changes in working capital	**10,210**	9,947
Cash flow from changes in working capital		
Change in inventories	-1,419	-1,509
Change in operating receivables	-1,003	1,407
Change in operating liabilities	751	-1,048
Cash flow from operating activities	**8,539**	8,797
Investing activities		
Company acquisitions	-452	-12,951
Divestments	1	25
Investments in intangible assets and property, plant and equipment	-4,664	-4,172
Sale of property, plant and equipment	64	123
Loans granted to external parties	-195	-221
Cash flow from investing activities	**-5,246**	-17,196
Financing activities		
Private placement to non-controlling interests	3	26
Dividend	-4,038	0
Change, receivable from Group companies	0	952
Loans raised	3,994	30,975
Amortization of debt	-4,053	-23,815
Dividend to non-controlling interests	-316	-220
Transactions with shareholders	0	838
Cash flow from financing activities	**-4,410**	8,756
Cash flow for the period	**-1,117**	357
Cash and cash equivalents at the beginning of the period	4,107	4,244
Exchange -differences in cash and cash equivalents	64	-172
Cash and cash equivalents at the end of the period	**3,054**	4,429
Cash flow from operating activities per share, SEK	12.16	12.53

Reconciliation with consolidated operating cash flow statement

Cash flow for the period	**-1,117**	357
Amortization of debt	4,053	23,815
Loans raised	-3,994	-30,975
Loans granted to external parties	195	221
Investment through financial lease	-9	-4
Change, receivable from Group companies	0	-952
Net debt in acquired and divested operations	-231	-12,981
Accrued interest	39	-71
Net cash flow according to consolidated operating cash flow statement	**-1,064**	-20,590

[1] Depreciation/amortization and impairment of non-current assets	*5,115*	*4,566*
Gain/loss on asset sales and swaps	*32*	*0*
Change, provision related to antitrust cases	*95*	*-266*
Gain/loss on divestments	*-4*	*-1*
Unpaid relating to efficiency program	*666*	*7*
Payments related to efficiency program already recognized	*-224*	*-389*
Change, one-time foreign tax on non-current assets	*-258*	*450*
Revaluation effect of previously owned holding upon acquisition	*-224*	*0*
Other	*241*	*47*
Total	*5,439*	*4,414*

CONSOLIDATED BALANCE SHEET

SEKm	September 30, 2018	December 31, 2017
Assets		
Goodwill	33,623	31,697
Other intangible assets	21,565	21,424
Buildings, land, machinery and equipment	51,181	48,482
Participation in joint ventures and associates	772	1,062
Shares and participation	25	32
Surplus in funded pension plans	2,393	1,148
Non-current financial assets	487	552
Deferred tax assets	2,285	2,232
Other non-current assets	785	469
Total non-current assets	**113,116**	107,098
Inventories	15,693	13,739
Trade receivables	19,342	17,607
Current tax assets	916	769
Other current receivables	2,689	2,549
Current financial assets	252	1,105
Non-current assets held for sale	35	42
Cash and cash equivalents	3,054	4,107
Total current assets	**41,981**	39,918
Total assets	**155,097**	147,016
Equity		
Share capital	2,350	2,350
Reserves	5,509	3,154
Retained earnings	38,112	36,785
Attributable to owner of the Parent	**45,971**	42,289
Non-controlling interests	7,667	7,281
Total equity	**53,638**	49,570
Liabilities		
Non-current financial liabilities	43,223	47,637
Provisions for pensions	4,468	4,541
Deferred tax liabilities	7,553	7,090
Other non-current provisions	1,913	1,481
Other non-current liabilities	90	79
Total non-current liabilities	**57,247**	60,828
Current financial liabilities	12,990	7,201
Trade payables	15,155	14,748
Current tax liabilities	639	553
Current provisions	1,496	1,547
Other current liabilities	13,932	12,569
Total current liabilities	**44,212**	36,618
Total liabilities	**101,459**	97,446
Total equity and liabilities	**155,097**	147,016

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	September 30, 2018	December 31, 2017
Debt/equity ratio	1.02	1.06
Equity/assets ratio	30%	29%
Equity	53,638	49,570
Equity per share	76	71
Return on equity	15.6%	19.8%
Return on equity excluding items affecting comparability	17.6%	21.3%
Capital employed	108,133	102,037
- of which working capital	8,392	5,901
Return on capital employed*	11.1%	13.9%
Return on capital employed* excluding items affecting comparability	12.4%	14.9%
Net debt	54,495	52,467
Provisions for restructuring costs are included in the balance sheet as follows		
-Other non-current provisions	119	8
-Other current provisions	936	549
Provisions for tax risks are included in the balance sheet as follows		
-Other non-current provisions	970	836
-Other current provisions	10	54

*) rolling 12 months

NET SALES (business area reporting)

SEKm	1809	1709	2018:3	2018:2	2018:1	2017:4	2017:3	2017:2
Personal Care	33,639	29,755	11,408	11,446	10,785	10,831	10,449	10,851
Consumer Tissue	33,031	30,988	10,912	11,116	11,003	11,026	10,066	10,449
Professional Hygiene	20,695	19,884	7,309	7,168	6,218	6,816	6,635	6,866
Other	23	-26	18	-9	14	-9	28	-11
Total net sales	**87,388**	80,601	**29,647**	29,721	28,020	28,664	27,178	28,155

ADJUSTED EBITA (business area reporting)

SEKm	1809	1709	2018:3	2018:2	2018:1	2017:4	2017:3	2017:2
Personal Care	4,702	4,398	1,565	1,605	1,532	1,539	1,556	1,614
Consumer Tissue	2,491	3,184	635	890	966	900	1,023	1,010
Professional Hygiene	2,756	2,660	970	1,014	772	1,344	1,023	917
Other	-465	-456	-154	-160	-151	-164	-170	-104
Total adjusted EBITA	**9,484**	9,786	**3,016**	3,349	3,119	3,619	3,432	3,437

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	1809	1709	2018:3	2018:2	2018:1	2017:4	2017:3	2017:2
Personal Care	4,193	4,062	1,387	1,434	1,372	1,369	1,404	1,434
Consumer Tissue	2,490	3,179	635	890	965	899	1,022	1,008
Professional Hygiene	2,729	2,621	960	1,005	764	1,335	1,014	902
Other	-465	-455	-153	-161	-151	-165	-169	-104
Total adjusted operating profit[1]	**8,947**	9,407	**2,829**	3,168	2,950	3,438	3,271	3,240
Financial items	-921	-845	-332	-299	-290	-337	-275	-304
Profit before tax[1]	**8,026**	8,562	**2,497**	2,869	2,660	3,101	2,996	2,936
Tax	-2,092	-2,165	-670	-745	-677	-26	-745	-761
Net profit for the period[2]	**5,934**	6,397	**1,827**	2,124	1,983	3,075	2,251	2,175
[1]Excluding items affecting comparability before tax amounting to:	-1,404	-919	-1,016	-29	-359	-21	-34	-476
[2]Excluding items affecting comparability after tax amounting to:	-999	-678	-749	7	-257	-9	-29	-334

ADJUSTED EBITA MARGIN (business area reporting)

%	1809	1709	2018:3	2018:2	2018:1	2017:4	2017:3	2017:2
Personal Care	14.0	14.8	13.7	14.0	14.2	14.2	14.9	14.9
Consumer Tissue	7.5	10.3	5.8	8.0	8.8	8.2	10.2	9.7
Professional Hygiene	13.3	13.4	13.3	14.1	12.4	19.7	15.4	13.4

STATEMENT OF PROFIT OR LOSS

SEKm	2018:3	2018:2	2018:1	2017:4	2017:3
Net sales	**29,647**	29,721	28,020	28,664	27,178
Cost of goods sold	-21,416	-21,104	-19,964	-20,236	-18,949
Items affecting comparability	-773	-181	-554	35	28
Gross profit	**7,458**	8,436	7,502	8,463	8,257
Sales, general and administration	-5,221	-5,279	-4,964	-4,856	-4,835
Items affecting comparability	-238	152	195	-57	-64
Share of profits of associates and joint ventures	6	11	27	47	38
EBITA	**2,005**	3,320	2,760	3,597	3,396
Amortization of acquisition-related intangible assets	-187	-181	-169	-181	-161
Items affecting comparability	-5	0	0	1	2
Operating profit	**1,813**	3,139	2,591	3,417	3,237
Financial items	-332	-299	-290	-337	-275
Profit before tax	**1,481**	2,840	2,301	3,080	2,962
Taxes	-403	-709	-575	-14	-740
Net profit for the period	**1,078**	2,131	1,726	3,066	2,222

INCOME STATEMENT PARENT COMPANY

SEKm	1809	1709
Administrative expenses	-581	-732
Other operating income	21	197
Operating loss	-560	-535
Financial items	5,309	2,409
Profit before tax	**4,749**	1,874
Tax on profit for the period	194	234
Profit for the period	**4,943**	2,108

BALANCE SHEET PARENT COMPANY

SEKm	September 30, 2018	December 31, 2017
Intangible fixed assets	0	0
Tangible fixed assets	4	5
Financial fixed assets	169,278	169,146
Total fixed assets	169,282	169,151
Total current assets	915	48,934
Total assets	**170,197**	218,085
Restricted equity	2,350	2,350
Unrestricted equity	76,640	75,735
Total equity	78,990	78,085
Untaxed reserves	1	1
Provisions	884	881
Non-current liabilities	39,447	41,709
Current liabilities	50,875	97,409
Total equity, provisions and liabilities	**170,197**	218,085

NOTES

1 ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34 and recommendation RFR 1 of the Swedish Financial Reporting Board (RFR), and with regards to the Parent Company, RFR 2.
Effective January 1, 2018, Essity applies the following new or amended International Financial Reporting Standards (IFRS):

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

IFRS 9 Financial Instruments
This is the new standard for financial instruments that replaces IAS 39. The standard came into effect on January 1, 2018.

In accordance with the new standard, Essity's accounting principles were updated and now comprise three categories of financial assets classified based on the company's business model to manage the asset and its contractual cash flows, for example interest.

1) Financial assets measured at amortized cost
2) Financial assets measured at fair value through other comprehensive income and
3) Financial assets measured at fair value.

The accounting principles related to financial liabilities are essentially unchanged compared with previous years. Essity has updated its accounting principles related to expected credit losses and has, in accordance with the standard, implemented the "expected loss model."

In the first quarter of 2018, Essity recognized a non-recurring effect of SEK 7m after tax in equity due to changes to the calculation model for expected credit losses on trade receivables. A long-term financial asset of SEK 87m was classified in the valuation category fair value through other comprehensive income. Otherwise, no changes took place of valuation classes. Essity has elected not to restate previous periods as the new standard has had no material impact. Essity also elected to adapt documentation relating to hedge accounting to the new regulation and has updated documentation in line with the new regulation.

IFRS 15 Revenue from Contracts with Customers
The standard regulates revenue recognition and disclosure requirements relating to commercial agreements (contracts) with customers in which the delivery of goods/services is divided up into separate identifiable performance obligations that are reported independently. The standard came into effect on January 1, 2018. Essity has updated its accounting principles in line with the new standard and recognition of revenue occurs when control of the sold goods has been transferred to the customer in accordance with the delivery terms applied in the agreement. Additional changes to the accounting principles were made to clarify the determination of the transaction price and how discounts are managed and any right of return. The determination of the transaction price is mainly through a fixed price for sold quantity. Volume discounts, discount coupons and market subsidies exist and the probable outcome of discounts is assessed and reduces revenue at the time of sale. The assessment of utilized discount coupons and volume discounts is revised at each accounting year-end. The accounting principles have clarified that the right of return, implicit or explicit, is recognized as a liability for the expected repayment and an asset for the right to recover products from customers when settling the repayment liability in connection with the return of the products.

No transition method for IFRS 15 has been applied as no transition effects have arisen as a result of the new standard. The recognition of discounts and performance obligations has not changed since Essity manufactures and sells finished products and was already processing discounts in accordance with the new standard. Historical experience is used to estimate the share of returns at the date of sale and revenue is only recognized for products that have been sold and that are not expected to be returned. The rights of customers to return products are only granted on a limited basis and historical volumes returned have been limited.

In other respects, the accounting principles and calculation methods applied correspond to those described in the 2017 Annual Report for Essity.

Effects of future accounting policies

IFRS 16 Leasing
The new standard will be applied as of January 1, 2019. Essity is preparing to transition to the new standard and has implemented system support in order to comply with the new requirements. During the year, a project team has gathered leasing contracts and work is now underway to evaluate and register the contracts in the new system. Activities to train the organization in the new standard and the new system were carried out during the third quarter. The assessment remains that the new standard will affect Essity insofar as all leases for premises, vehicles and other large leasing objects will be recognized in the balance sheet. In turn, this will impact several performance measures, such as EBITA, EBITA margin, net financial items, capital employed, return on capital employed, net debt and debt payment capacity.

2 RISKS AND UNCERTAINTIES

Essity's risk exposure and risk management are described on pages 66-71 of the 2017 Annual Report for Essity. No significant changes have taken place that have affected the reported risks.

Risks in conjunction with company acquisitions are analyzed in the due diligence processes that Essity carries out prior to all acquisitions. In cases where acquisitions have been carried out that may affect the assessment of Essity's risk exposure, these are described under the heading "Other events" in the interim and year-end reports.

Processes for risk management

Essity's Board determines the Group's strategic direction based on recommendations from the Executive Management Team. Responsibility for the long-term, overall management of strategic risks corresponds to the company's delegation structure, from the Board to the CEO and from the CEO to the business unit presidents. This means that most operational risks are managed by Essity's business units at the local level, but that they are coordinated when considered necessary. The tools used in this coordination consist primarily of the business units' regular reporting and the annual strategy process, where risks and risk management are a part of the process.

Essity's financial risk management is centralized, as is the Group's internal bank for the Group companies' financial transactions and management of the Group's energy risks. Financial risks are managed in accordance with the Group's finance policy, which is adopted by Essity's Board and which – together with Essity's energy risk policy – makes up a framework for risk management. Risks are aggregated and monitored on a regular basis to ensure compliance with these guidelines. Essity has also centralized other risk management.

Essity has a staff function for internal audit, which monitors compliance in the organization with the Group's policies.

3 FINANCIAL INSTRUMENTS PER CATEGORY

Distribution by level for measurement at fair value

SEKm	Carrying amount in the balance sheet	Measured at fair value through profit or loss	Derivatives used for hedge accounting	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Of which fair value by level[1]	
September 30, 2018						1	2
Derivatives	1,320	209	1,111	-	-	-	1,320
Non-current financial assets	90	-	-	90	-	90	-
Total assets	**1,410**	**209**	**1,111**	**90**	**-**	**90**	**1,320**
Derivatives	650	606	44	-	-	-	650
Financial liabilities							
Current financial liabilities	12,306	909	-	-	11,397	-	909
Non-current financial liabilities	43,168	16,056	-	-	27,112	-	16,056
Total liabilities	**56,124**	**17,571**	**44**	**-**	**38,509**	**-**	**17,615**
December 31, 2017							
Derivatives	1,555	816	739	-	-	-	1,555
Non-current financial assets	87	-	-	87	-	87	-
Total assets	1,642	816	739	87	-	87	1,555
Derivatives	591	434	157	-	-	-	591
Financial liabilities							
Current financial liabilities	6,520	-	-	-	6,520	-	-
Non-current financial liabilities	47,605	16,292	-	-	31,313	-	16,292
Total liabilities	54,716	16,726	157	-	37,833	-	16,883

[1]No financial instruments have been classified to level 3

The total fair value of the above financial liabilities is SEK 56,152m (54,145). The fair value of trade receivables, other current and non-current receivables, cash and cash equivalents, trade payables and other current and non-current liabilities is estimated to be equal to their carrying amount.

No transfers between level 1 and 2 were made during the period.

4 ACQUISITIONS AND DIVESTMENTS

On December 19, 2016, it was announced that an agreement to acquire BSN medical, a leading medical solutions company, had been concluded. BSN medical develops, manufactures, markets and sells products within wound care, compression therapy and orthopedics. The purchase price for the shares was EUR 1,394m, and takeover of net debt amounted to EUR 1,324m. The acquisition is fully debt-funded. The transaction, which was subject to customary regulatory approvals, was closed on April 3, 2017.

The earlier preliminary purchase price allocation for BSN medical was finalized in the first quarter of 2018. The definitive purchase price allocation is presented below specifying intangible assets in the form of customer relationships, brands, technologies and goodwill. Goodwill is justified by the synergies that arise as a result of BSN medical's leading market positions in attractive medical solutions product categories, which create a shared future growth platform in combination with Essity's incontinence business, including the globally leading brand TENA. Furthermore, synergies are generated by being able to utilize a common customer base and sales channels for both businesses, enabling more rapid growth through cross selling.

During the first quarter of 2018, BSN medical affected consolidated net sales by SEK 1,970m, adjusted EBITDA by SEK 407m and adjusted EBITA by SEK 344m.

Purchase price allocation, BSN medical	Preliminary	New assumptions	Final
SEKm			
Intangible assets	13,472	0	13,472
Non-current assets	1,679	18	1,697
Current assets	3,161	1	3,162
Cash and cash equivalents	471	-16	455
Net debt	-13,038	-10	-13,048
Provisions and other non-current liabilities	-4,278	-9	-4,287
Operating liabilities	-1,272	5	-1,267
Net identifiable assets and liabilities	**195**	**-11**	**184**
Goodwill	13,145	11	13,156
Non-controlling interests	-80	0	-80
Consideration paid	**13,260**	**0**	**13,260**
Consideration paid	-13,260	0	-13,260
Cash and cash equivalents in acquired operations	471	-16	455
Effect on the Group's cash and cash equivalents (Consolidated cash flow statement)	**-12,789**	**-16**	**-12,805**
Acquired net debt excluding cash and cash equivalents	-13,038	-10	-13,048
Acquisition of operations including net debt taken over (Consolidated operating cash flow statement)	**-25,827**	**-26**	**-25,853**

On February 16, 2018, Familia, in which Essity has a 50% stake, acquired the remaining 50% of the company Productos Sancela del Peru with operations in Peru and Bolivia. The consideration transferred amounted to SEK 310m. Essity has consolidated this company as a subsidiary with a non-controlling interest. Prior to the acquisition, the company was consolidated as an associate according to the equity method. The previously owned share of equity was remeasured at fair value in the amount of SEK 225m and recognized as an item affecting comparability in profit or loss.

On April 3, 2018, Familia, in which Essity has a 50% stake, acquired the company Industrial Papelera Ecuatoriana S.A. (INPAECSA) with operations in Ecuador. The payment transferred amounted to SEK 68m.

5 Use of non-IFRS performance measures

Guidelines for Alternative Performance Measures (APMs) for companies with securities listed on a regulated market in the EU have been issued by the European Securities and Markets Authority (ESMA). These guidelines are to be applied for APMs not supported under IFRS.

This interim report refers to a number of performance measures not defined in IFRS. These performance measures are used to help investors, management and other stakeholders analyze the company's operations. These non-IFRS measures may differ from similarly titled measures among other companies. Essity's 2017 Annual Report (pages 104-108) describes the various non-IFRS performance measures that are used as a complement to the financial information presented in accordance with IFRS. A number of non-IFRS performance measures have been added since the publication of the Annual Report and these are presented below. Tables are also presented that show how the performance measures have been calculated.

Calculation of financial performance measures not included in IFRS framework

EBITDA

Description: EBITDA is calculated as operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets.
Reason for use: This measure is a complement to operating profit, as it shows the cash surplus from operations.

Adjusted EBITDA

Description: Adjusted EBITDA is calculated as operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets excluding items affecting comparability.
Reason for use: This measure is a complement to operating profit, as it shows the cash surplus from operations adjusted for the impact of items affecting comparability.

Net debt / EBITDA

Description: Net debt / EBITDA is calculated as the closing balance of net debt in relation to 12 months rolling EBITDA.
Reason for use: A financial measure that shows the company's capacity to repay its debt.

Net debt / Adjusted EBITDA

Description: Net debt / adjusted EBITDA is calculated as the closing balance of net debt in relation to 12 months rolling adjusted EBITDA.
Reason for use: A financial measure that shows the company's capacity to repay its debt.

Capital employed

SEKm	1809	1712
Total assets	155,097	147,016
-Financial receivables	-6,186	-6,912
-Non-current non-interest bearing liabilities	-9,556	-8,650
-Current non-interest bearing liabilities	-31,222	-29,417
Capital employed	108,133	102,037

SEKm	2018:3	2018:2	2018:1	2017:4	2017:3
Personal Care	41,885	42,888	42,033	39,447	38,219
Consumer Tissue	45,474	46,714	45,091	43,569	41,945
Professional Hygiene	21,291	22,008	20,445	20,034	19,274
Other	-517	-463	-315	-1,013	-1,024
Capital employed	108,133	111,147	107,254	102,037	98,414

Working capital

SEKm	1809	1712
Inventories	15,693	13,739
Accounts receivables	19,342	17,607
Other current receivables	2,689	2,549
Accounts payables	-15,155	-14,748
Other current liabilities	-13,932	-12,569
Adjustments	-245	-677
Working capital	8,392	5,901

Net debt

SEKm	1809	1712
Surplus in funded pension plans	2,393	1,148
Non-current financial assets	487	552
Current financial assets	252	1,105
Cash and cash equivalents	3,054	4,107
Financial receivables	6,186	6,912
Non-current financial liabilities	43,223	47,637
Provisions for pensions	4,468	4,541
Current financial liabilities	12,990	7,201
Financial liabilities	60,681	59,379
Net debt	54,495	52,467

EBITDA

SEKm	1809	1709	2018:3	2017:3
Operating profit	7,543	8,488	1,813	3,237
-Amortization of acquisition-related intangible assets	537	379	187	161
-Depreciations	4,027	3,816	1,390	1,256
-Items affecting comparability, depreciations	0	2	0	0
-Impairment	10	0	0	0
-Items affecting comparability, impairment	541	283	234	-16
-Items affecting comparability, impairment of acquisition-related intangible assets	5	86	5	-2
EBITDA	12,663	13,054	3,629	4,636
-Items affecting comparability excluding depreciation and impairment	858	548	777	52
Adjusted EBITDA	13,521	13,602	4,406	4,688

EBITA

SEKm	1809	1709	2018:3	2017:3
Operating profit	7,543	8488	1813	3237
-Amortization of acquisition-related intangible assets	537	379	187	161
-Items affecting comparability amortization of acquisition-related intangible assets	5	86	5	-2
-Operating profit before amortization of acquisition-related intangible assets/EBITA	8,085	8,953	2,005	3,396
EBITA margin (%)	9.3	11.1	6.8	12.5
-Items affecting comparability cost of goods sold	1,508	544	773	-28
-Items affecting comparability, sales and administration costs	-109	289	238	64
Adjusted EBITA	9,484	9,786	3,016	3,432
Adjusted EBITA margin (%)	10.9	12.1	10.2	12.6

Operating cash flow

SEKm	1809	1709	2018:3	2017:3
Personal Care				
Operating cash surplus	5,758	5,290	1,937	1,869
Change in working capital	-404	-318	116	228
Current capital expenditures, net	-753	-726	-268	-361
Restructuring costs, etc.	-272	-233	-30	-37
Operating cash flow	4,329	4,013	1,755	1,699
Consumer Tissue				
Operating cash surplus	4,171	4,720	1,216	1,527
Change in working capital	-826	-540	-188	-904
Current capital expenditures, net	-1,311	-1,292	-438	-390
Restructuring costs, etc.	-176	-132	-115	13
Operating cash flow	1,858	2,756	475	246
Professional Hygiene				
Operating cash surplus	4,077	3,904	1,434	1,428
Change in working capital	-559	-116	277	492
Current capital expenditures, net	-624	-552	-208	-227
Restructuring costs, etc.	-216	-448	-151	-154
Operating cash flow	2,678	2,788	1,352	1,539

Organic net sales*

SEKm	1809	2018:3
Personal Care		
Organic net sales	875	237
Currency effect[1]	756	607
Acquisition/Disposals	2,252	114
Reported change	3,883	958
Consumer Tissue		
Organic net sales	578	6
Currency effect[1]	1,337	776
Acquisition/Disposals	127	63
Reported change	2,042	845
Professional Hygiene		
Organic net sales	415	193
Currency effect[1]	380	474
Acquisition/Disposals	15	6
Reported change	810	673
Essity		
Organic net sales	1,919	429
Currency effect[1]	2,473	1,855
Acquisition/Disposals	2,394	184
Reported change	6,786	2,468

[1]Consists only of currency translation effects

*For a definition of “Organic net sales,” refer to page 106 of Essity’s 2017 Annual Report.