

Interim Report Third Quarter 2019



Essity Aktiebolag (publ)



JANUARY 1 – SEPTEMBER 30, 2019

(compared with the corresponding period a year ago)

- Net sales increased 9.0% to SEK 95,289m (87,388)
- Organic net sales increased 4.8%
- In emerging markets, which accounted for 36% of net sales, organic net sales increased 9.8%
- Operating profit before amortization of acquisition-related intangible assets (EBITA) increased 28% to SEK 10,387m (8,085)
- Adjusted EBITA increased 17% to SEK 11,098m (9,484)
- Adjusted EBITA margin increased 0.7 percentage points to 11.6% (10.9)
- Profit for the period increased 45% to SEK 7,166m (4,935)
- Earnings per share increased 45% to SEK 9.25 (6.38)
- Adjusted earnings per share increased 27% to SEK 10.59 (8.35)
- Cash flow from current operations increased to SEK 9,529m (3,968)

EARNINGS TREND

SEKm	1909	1809	%	2019:3	2018:3	%
Net sales	95,289	87,388	9	32,565	29,647	10
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) ¹	11,098	9,484	17	4,176	3,016	38
Operating profit before amortization of acquisition-related intangible assets (EBITA)	10,387	8,085	28	3,975	2,005	98
Amortization of acquisition-related intangible assets	-576	-537		-196	-187	
Adjusted operating profit ¹	10,522	8,947	18	3,980	2,829	41
Items affecting comparability	-711	-1,404		-201	-1,016	
Operating profit	9,811	7,543	30	3,779	1,813	108
Financial items	-1,006	-921		-320	-332	
Profit before tax	8,805	6,622	33	3,459	1,481	134
Adjusted profit before tax ¹	9,516	8,026	19	3,660	2,497	47
Tax	-1,639	-1,687		-723	-403	
Profit for the period	7,166	4,935	45	2,736	1,078	154
Earnings per share, SEK	9.25	6.38		3.53	1.41	
Adjusted earnings per share, SEK ²	10.59	8.35		3.99	2.67	

¹Excluding items affecting comparability; for amounts see page 11.

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

SUMMARY OF THE THIRD QUARTER OF 2019

The quarter was characterized by strong development in terms of growth and profitability. Organic net sales increased 5.9% and the adjusted EBITA margin rose 2.6 percentage points to 12.8%. All business areas reported higher margins. Earnings per share increased 150% to SEK 3.53.

All business areas demonstrated healthy growth due to implemented price increases, a better mix and higher volumes. Growth was strengthened by innovations and investments in sales and marketing activities.

Our online sales continued to perform favorably and totaled approximately SEK 9bn for the first nine months of 2019, corresponding to about 10% of total Group net sales.

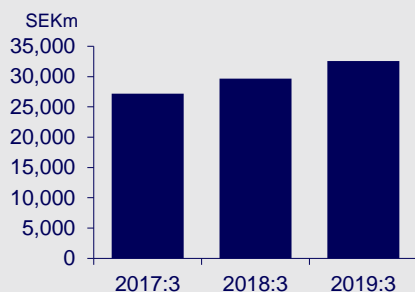
We continued our successful innovation work to increase customer and consumer value and reduce the environmental footprint. During the quarter, Professional Hygiene launched Tork Xpressnap® Electronic Drive Thru Napkin Dispenser, including such benefits as increased efficiency for our customers. In Incontinence Products, we launched TENA ProSkin™ Protective Underwear, with different models for men and women. Essity, together with our brands Saba and Tork, has entered an agreement with UNICEF in Mexico to jointly spread awareness of the importance of good hand hygiene and to break the barriers surrounding menstruation. Furthermore, Professional Hygiene with the Tork brand launched a virtual reality app to provide education in the area of hand hygiene.

Total cost savings amounted to SEK 271m during the quarter, of which SEK 179m was related to the Group-wide cost-savings program. Ongoing cost savings in addition to this program amounted to SEK 92m. The lower rate was due to temporarily higher production and distribution costs, mainly attributable to disruptions in connection with the start-up of new production capacity, and a higher pace of product launches, combined with higher demand. On this basis, we have changed our ambition to achieve SEK 600-700m in ongoing savings and SEK 1.2-1.3bn in total cost savings for full-year 2019.

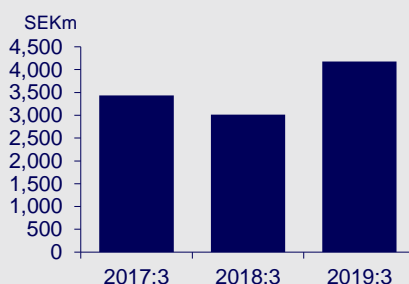
The Group's net sales increased 9.8% in the third quarter of 2019 compared with the corresponding period a year ago. Organic net sales increased 5.9%, of which volume accounted for 3.8% and price/mix for 2.1%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 9.8%, while the increase in mature markets was 3.8%.

The Group's adjusted EBITA in the third quarter of 2019 increased 38% compared with the corresponding period a year ago. Earnings were positively impacted by higher prices, a better mix, higher volumes, lower raw material and energy costs and cost savings. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. While the Group reported an increase in its sales and marketing costs, these were lower as a proportion of total net sales. The Group's adjusted EBITA margin increased 2.6 percentage points to 12.8%. The adjusted return on capital employed was 14.3%. Operating cash flow increased 73%, primarily related to a higher operating cash surplus and changes in working capital.

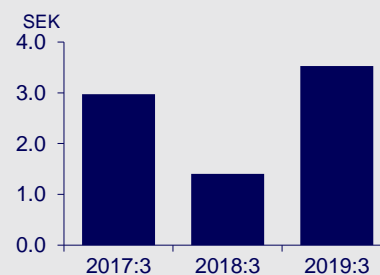
Net sales



Adjusted EBITA



Earnings per share



Excluding items affecting comparability; for amounts see page 11.

ADJUSTED EARNINGS TREND

SEKm	1909	1809	%	2019:3	2018:3	%
Net sales	95,289	87,388	9	32,565	29,647	10
Cost of goods sold ¹	-67,879	-62,484		-22,793	-21,416	
Adjusted gross profit¹	27,410	24,904	10	9,772	8,231	19
Sales, general and administration ¹	-16,312	-15,420		-5,596	-5,215	
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)¹	11,098	9,484	17	4,176	3,016	38
Amortization of acquisition-related intangible assets ¹	-576	-537		-196	-187	
Adjusted operating profit¹	10,522	8,947	18	3,980	2,829	41
Financial items	-1,006	-921		-320	-332	
Adjusted profit before tax¹	9,516	8,026	19	3,660	2,497	47
Adjusted tax ¹	-1,809	-2,092		-730	-670	
Adjusted profit for the period¹	7,707	5,934	30	2,930	1,827	60
¹ Excluding items affecting comparability; for amounts see page 11.						
Adjusted margins (%)						
Gross margin ¹	28.8	28.5		30.0	27.8	
EBITA margin ¹	11.6	10.9		12.8	10.2	
Operating margin ¹	11.0	10.2		12.2	9.5	
Financial net margin	-1.1	-1.1		-1.0	-1.1	
Profit margin¹	9.9	9.1		11.2	8.4	
Tax ¹	-1.9	-2.4		-2.2	-2.3	
Net margin¹	8.0	6.7		9.0	6.1	

¹ Excluding items affecting comparability; for amounts see page 11.**ADJUSTED EBITA BY BUSINESS AREA**

SEKm	1909	1809	%	2019:3	2018:3	%
Personal Care	4,990	4,702	6	1,739	1,565	11
Consumer Tissue	3,554	2,491	43	1,319	635	108
Professional Hygiene	3,055	2,756	11	1,288	970	33
Other	-501	-465		-170	-154	
Total¹	11,098	9,484	17	4,176	3,016	38

¹ Excluding items affecting comparability; for amounts see page 11.**ADJUSTED OPERATING PROFIT BY BUSINESS AREA**

SEKm	1909	1809	%	2019:3	2018:3	%
Personal Care	4,447	4,193	6	1,554	1,387	12
Consumer Tissue	3,549	2,490	43	1,317	635	107
Professional Hygiene	3,026	2,729	11	1,278	960	33
Other	-500	-465		-169	-153	
Total¹	10,522	8,947	18	3,980	2,829	41

¹ Excluding items affecting comparability; for amounts see page 11.**OPERATING CASH FLOW BY BUSINESS AREA**

SEKm	1909	1809	%	2019:3	2018:3	%
Personal Care	4,852	3,762	29	2,003	1,599	25
Consumer Tissue	3,013	885	240	986	126	683
Professional Hygiene	3,315	2,472	34	1,957	1,290	52
Other	-294	-464		62	-128	
Total	10,886	6,655	64	5,008	2,887	73

GROUP

NET SALES AND EARNINGS

January–September 2019 compared with the corresponding period a year ago

Net sales increased 9.0% compared with the corresponding period a year ago to SEK 95,289m (87,388). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.8%, of which volume accounted for 2.3% and price/mix for 2.5%. Excluding lower sales of mother reels within Consumer Tissue, resulting from production closures within the scope of Tissue Roadmap, organic sales increased 5.1%. Organic net sales increased 2.1% in mature markets and increased 9.8% in emerging markets. Emerging markets accounted for 36% of net sales. Exchange rate effects increased net sales by 4.2%. Acquisitions in Latin America increased net sales by 0.1%. The divestment of the partly owned company SCA Yildiz in Turkey reduced net sales by 0.1%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 17% (11% excluding currency translation effects, acquisitions and divestments) to SEK 11,098m (9,484). Higher prices, a better mix, higher volumes and cost savings had a positive impact on earnings. Cost savings amounted to SEK 887m, of which SEK 435m was related to the Group-wide cost-savings program. Higher raw material and energy costs had a negative earnings effect of SEK -937m, which corresponds to a negative impact on the adjusted EBITA margin of -1.1 percentage points. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth entail increased sales and marketing costs, although these costs were lower as a proportion of net sales.

Items affecting comparability amounted to SEK -711m (-1,404) and include costs of approximately SEK -343m related to restructuring costs for the Group-wide cost-savings program. The divestment of the 50% stake in the partly owned company SCA Yildiz in Turkey resulted in a currency related loss of SEK -149m that did not affect cash flow or shareholders' equity. Other costs negatively impacted items affecting comparability by SEK -219m.

Financial items increased to SEK -1,006m (-921). The increase is primarily related to higher interest and higher average net debt, mainly due to the new accounting standard for leases.

Adjusted profit before tax increased 19% (13% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 9,516m (8,026).

The tax expense, excluding effects of items affecting comparability, was SEK 1,809m (2,092).

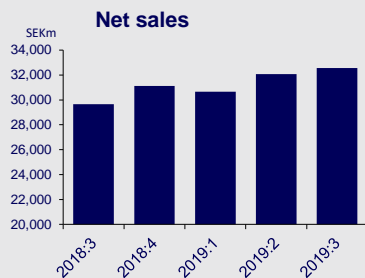
Adjusted profit for the period increased 30% (24% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 7,707m (5,934).

Profit for the period increased 45% (39% excluding currency translation effects, acquisitions and divestments) to SEK 7,166m (4,935). Earnings per share were SEK 9.25 (6.38). The adjusted earnings per share were SEK 10.59 (8.35).

The adjusted return on capital employed was 12.8% (12.4). The adjusted return on equity was 20.0% (17.6).

Third quarter of 2019 compared with the corresponding period a year ago

Net sales increased 9.8% compared with the corresponding period a year ago to SEK 32,565m (29,647). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 5.9%, of which volume accounted for 3.8% and price/mix for 2.1%. Organic net sales were positively impacted by higher prices, a better mix and higher volumes in all business areas. Organic net sales increased 3.8% in mature markets and increased 9.8% in emerging markets. Emerging markets accounted for 36% of net sales. Exchange rate effects increased net sales by 4.3%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 0.4%.

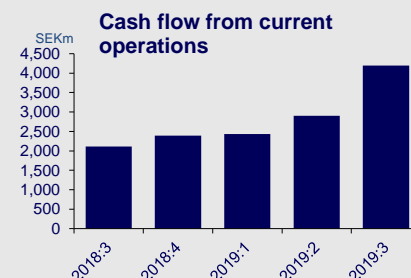
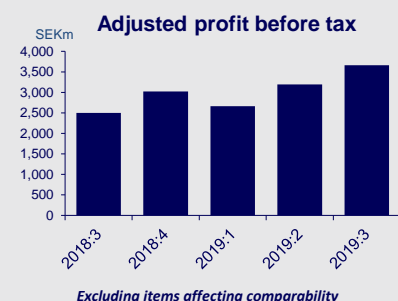


Change in net sales (%)

	1909 vs 1809	19:3 vs 18:3
Total	9.0	9.8
Price/mix	2.5	2.1
Volume	2.3	3.8
Currency	4.2	4.3
Acquisitions	0.1	0.0
Divestments	-0.1	-0.4

Change in adjusted EBITA (%)

	1909 vs 1809	19:3 vs 18:3
Total	17	38
Price/mix	22	20
Volume	9	12
Raw materials	-8	14
Energy	-2	2
Currency	5	7
Other	-9	-17



Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 38% (31% excluding currency translation effects, acquisitions and divestments) to SEK 4,176m (3,016). Earnings were positively impacted by higher prices, a better mix, higher volumes, lower raw material and energy costs and cost savings amounting to SEK 271m, of which SEK 179m was related to the Group-wide cost-savings program. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth entail increased sales and marketing costs, although these costs were lower as a proportion of net sales.

Adjusted profit before tax increased 47% (39% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 3,660m (2,497).

Profit for the period increased 154% (146% excluding currency translation effects, acquisitions and divestments) to SEK 2,736m (1,078). Earnings per share were SEK 3.53 (1.41). The adjusted earnings per share were SEK 3.99 (2.67).

The adjusted return on capital employed was 14.3% (11.0). The adjusted return on equity was 20.1% (13.7).

CASH FLOW AND FINANCING

January–September 2019 compared with the corresponding period a year ago

The operating cash surplus amounted to SEK 16,279m (13,624). The cash flow effect of changes in working capital was SEK -133m (-1,671). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -3,761m (-4,609). Operating cash flow before investments in operating assets through leases amounted to SEK 11,219m (6,655). Investments in operating assets through leases amounted to SEK -333m (0). Operating cash flow was SEK 10,886m (6,655).

Financial items increased to SEK -1,006m (-921). The increase was mainly related to higher interest and higher average net debt, primarily due to the new accounting standard for leases. Tax payments had a negative impact on cash flow of SEK -359m (-1,851). A decision in a tax case in Sweden reduced the tax payment by approximately SEK 1.1bn.

The net sum of acquisitions and divestments was SEK 210m (-681). Net cash flow totaled SEK 5,402m (-1,064).

Net debt increased by SEK 3,500m during the year and amounted to SEK 57,904m. The increase is mainly related to the new accounting standard for leases, which increased net debt by SEK 3,786m. Excluding pension liabilities, net debt amounted to SEK 51,932m. Net cash flow reduced net debt by SEK 5,402m. 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, increased net debt by SEK 1,998m. Exchange rate movements increased net debt by SEK 2,738m. Investments in non-operating assets through leases increased net debt by SEK 380m.

The debt/equity ratio was 0.96 (1.02). Excluding pension liabilities, the debt/equity ratio was 0.86 (0.98). The debt payment capacity was 31% (25). Net debt in relation to adjusted EBITDA amounted to 2.76 (2.95).

EQUITY

January–September 2019

The Group's equity increased by SEK 5,133m during the period, to SEK 60,032m. Net profit for the period increased equity by SEK 7,166m. Dividends to shareholders of SEK 4,381m reduced equity. Equity decreased net after tax by SEK 1,559m 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 reduced equity by SEK 246m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 4,164m. Other items reduced equity by SEK 11m.

TAX

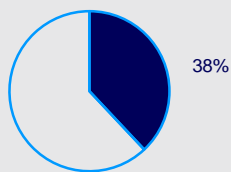
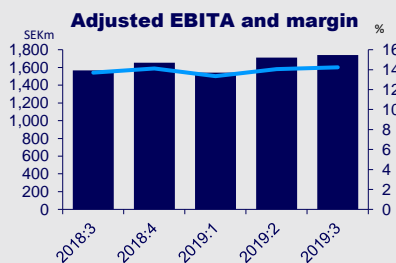
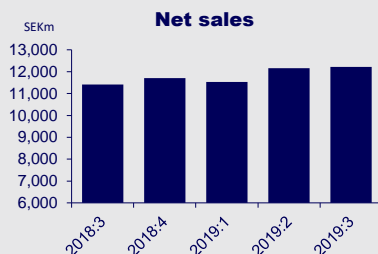
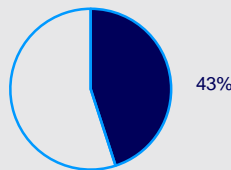
January–September 2019

A tax expense of SEK 1,809m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 19.0% for the period. The tax expense including items affecting comparability was SEK 1,639m, corresponding to a tax rate of 18.6% for the period. A revaluation of deferred tax had a positive impact on the tax rate of SEK 253m in the second quarter of 2019.

EVENTS AFTER THE QUARTER

Closure of open baby diaper operations in Russia

As part of Essity's work to address weak market positions with insufficient profitability, the company has decided to close its open baby diaper operations in Russia at the end of 2019. The business reported net sales of approximately SEK 90m in 2018. Essity will continue to offer pant diapers in Russia.

Share of Group, net sales
1909Share of Group, adjusted EBITA
1909

Change in net sales (%)

	1909 vs 1809	19:3 vs 18:3
Total	6.8	7.1
Price/mix	1.3	1.2
Volume	2.4	3.3
Currency	3.4	3.6
Acquisitions	0.1	0.0
Divestments	-0.4	-1.0

Change in adjusted EBITA (%)

	1909 vs 1809	19:3 vs 18:3
Total	6	11
Price/mix	9	10
Volume	9	11
Raw materials	-13	-7
Energy	-1	-1
Currency	4	5
Other	-2	-7

PERSONAL CARE

SEKm	1909	1809	%	2019:3	2018:3	%
Net sales	35,915	33,639	7	12,216	11,408	7
Adjusted EBITA*	4,990	4,702	6	1,739	1,565	11
Adjusted EBITA margin, %*	13.9	14.0		14.2	13.7	
Adjusted operating profit*	4,447	4,193	6	1,554	1,387	12
Adjusted operating margin, %*	12.4	12.5		12.7	12.2	
Adjusted return on capital employed, %*	15.1	15.3		15.3	14.8	
Operating cash flow	4,852	3,762		2,003	1,599	

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

January–September 2019 compared with the corresponding period a year ago

Net sales increased 6.8% to SEK 35,915m (33,639). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.7%, of which volume accounted for 2.4% and price/mix for 1.3%. Organic net sales in mature markets increased 2.1%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 6.8%. Acquisitions in Latin America increased net sales by 0.1%. Exchange rate effects increased net sales by 3.4%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 0.4%.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 5.1%. Growth was related to Western Europe, North America and emerging markets. In Medical Solutions, organic net sales increased 0.7%, mainly related to emerging markets and Western Europe. For Baby Care, organic net sales decreased 0.5% related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 9.7%, related to Latin America, Asia and Western Europe.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 6% (2% excluding currency translation effects, acquisitions and divestments) to SEK 4,990m (4,702). The increase was mainly related to higher prices, a better mix, higher volumes and cost savings. Higher raw material and energy costs negatively impacted profit by SEK -666m, which corresponds to a negative impact on the adjusted EBITA margin of -1.9 percentage points. The significantly higher raw material costs were mainly related to pulp and oil-based raw materials and a negative currency transaction effect. Higher distribution costs also negatively impacted earnings. Investments to increase growth entail increased marketing costs, although these were lower as a proportion of net sales.

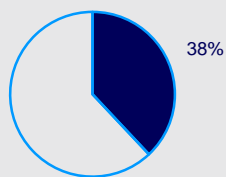
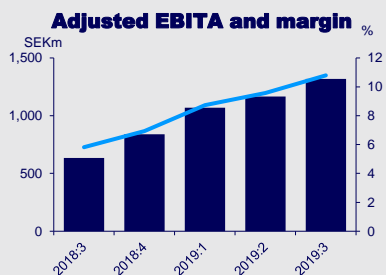
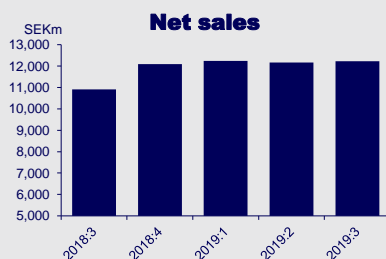
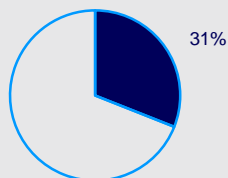
The operating cash surplus amounted to SEK 6,500m (5,758).

Third quarter of 2019 compared with the corresponding period a year ago

Net sales increased 7.1% to SEK 12,216m (11,408). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.5%, of which volume accounted for 3.3% and price/mix for 1.2%. Organic net sales in mature markets increased 3.3%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 6.9%. Exchange rate effects increased net sales by 3.6%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 1.0%.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 5.9%. Growth was related to Western Europe, North America and emerging markets. In Medical Solutions, organic net sales increased 1.5%, mainly related to emerging markets. For Baby Care, organic net sales decreased 0.5% related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 10.7%. The increase was related to Latin America, Asia and Western Europe.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 11% (5% excluding currency translation effects, acquisitions and divestments) to SEK 1,739m (1,565). The increase was mainly related to higher prices, a better mix, higher volumes and cost savings. Higher raw material and energy costs negatively impacted profit by SEK -120m, which corresponds to a negative impact on the adjusted EBITA margin of -1.0 percentage points. The higher raw material costs were mainly related to pulp and a negative currency transaction effect. Higher distribution costs also negatively impacted earnings. Investments to increase growth and costs for implementation of the Medical Device Regulation entail increased sales and marketing costs.

Share of Group, net sales
1909Share of Group, adjusted EBITA
1909

Change in net sales (%)

	1909 vs 1809	19:3 vs 18:3
Total	10.9	12.0
Price/mix	3.8	3.2
Volume	2.7	4.9
Currency	4.2	3.9
Acquisitions	0.2	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1909 vs 1809	19:3 vs 18:3
Total	43	108
Price/mix	53	56
Volume	12	18
Raw materials	-8	54
Energy	-3	7
Currency	7	11
Other	-18	-38

CONSUMER TISSUE

SEKm	1909	1809	%	2019:3	2018:3	%
Net sales	36,635	33,031	11	12,220	10,912	12
Adjusted EBITA*	3,554	2,491	43	1,319	635	108
Adjusted EBITA margin, %*	9.7	7.5		10.8	5.8	
Adjusted operating profit*	3,549	2,490	43	1,317	635	107
Adjusted operating margin, %*	9.7	7.5		10.8	5.8	
Adjusted return on capital employed, %*	9.3	7.6		11.0	5.5	
Operating cash flow	3,013	885		986	126	

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

January–September 2019 compared with the corresponding period a year ago

Net sales increased 10.9% to SEK 36,635m (33,031). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 6.5%, of which volume accounted for 2.7% and price/mix for 3.8%. Excluding lower sales of mother reels resulting from production closures within the scope of Tissue Roadmap, organic net sales increased 7.2%. Organic net sales increased 2.2% in mature markets. In emerging markets, which accounted for 46% of net sales, organic net sales increased by 12.1%. Acquisitions in Latin America increased net sales by 0.2%. Exchange rate effects increased net sales by 4.2%.

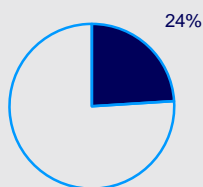
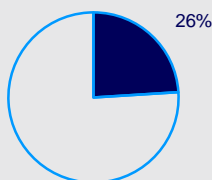
Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 43% (35% excluding currency translation effects and acquisitions) to SEK 3,554m (2,491). The increase was mainly due to higher prices, a better mix, higher volumes and cost savings. Higher raw material and energy costs negatively impacted earnings by SEK -268m, corresponding to a negative impact on the adjusted EBITA margin of -0.7 percentage points. The higher raw material costs were mainly the result of a negative currency transaction effect. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth increased sales and marketing costs.

The operating cash surplus totaled SEK 5,550m (4,171).

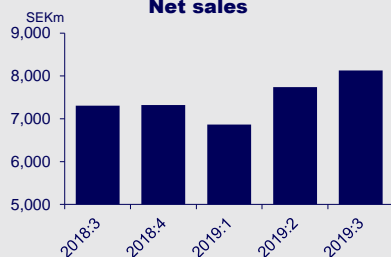
Third quarter of 2019 compared with the corresponding period a year ago

Net sales increased 12.0% to SEK 12,220m (10,912). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 8.1%. Volumes increased by 4.9%, mainly related to Asia and Latin America. Price/mix increased 3.2%, primarily related to Europe and Latin America. Organic net sales increased 4.3% in mature markets. In emerging markets, which accounted for 46% of net sales, organic net sales increased by 12.8%. Exchange rate effects increased net sales by 3.9%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 108% (97% excluding currency translation effects) to SEK 1,319m (635). Higher prices, a better mix, higher volumes, lower raw material and energy costs and cost savings had a positive impact on earnings. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth entailed increased sales and marketing costs.

Share of Group, net sales
1909Share of Group, adjusted EBITA
1909

Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1909 vs 1809	19:3 vs 18:3
Total	9.9	11.3
Price/mix	2.1	1.8
Volume	1.7	3.2
Currency	6.1	6.3
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1909 vs 1809	19:3 vs 18:3
Total	11	33
Price/mix	13	11
Volume	5	7
Raw materials	1	17
Energy	-1	3
Currency	5	7
Other	-12	-12

PROFESSIONAL HYGIENE

SEKm	1909	1809	%	2019:3	2018:3	%
Net sales	22,740	20,695	10	8,131	7,309	11
Adjusted EBITA*	3,055	2,756	11	1,288	970	33
Adjusted EBITA margin, %*	13.4	13.3		15.8	13.3	
Adjusted operating profit*	3,026	2,729	11	1,278	960	33
Adjusted operating margin, %*	13.3	13.2		15.7	13.1	
Adjusted return on capital employed, %*	17.8	19.9		21.2	17.9	
Operating cash flow	3,315	2,472		1,957	1,290	

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

January–September 2019 compared with the corresponding period a year ago

Net sales increased 9.9% to SEK 22,740m (20,695). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.8%, of which volume accounted for 1.7% and price/mix for 2.1%. Organic net sales increased 2.2% in mature markets. In emerging markets, which accounted for 20% of net sales, organic net sales increased 10.5%. Exchange rate effects increased net sales by 6.1%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 11% (6% excluding currency translation effects) to SEK 3,055m (2,756). Earnings were positively impacted by higher prices, a better mix, higher volumes, lower raw material costs and cost savings. Higher energy costs had a negative impact on earnings. Furthermore, stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to increase growth entailed increased sales costs.

The operating cash surplus was SEK 4,623m (4,077).

Third quarter of 2019 compared with the corresponding period a year ago

Net sales increased 11.3% to SEK 8,131m (7,309). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 5.0%. Volumes increased 3.2%, mainly related to Europe, Latin America and North America. Price/mix increased by 1.8%, mainly related to Europe and Latin America. Organic net sales increased 4.4% in mature markets. In emerging markets, which accounted for 20% of net sales, organic net sales increased 8.1%. Exchange rate effects increased net sales by 6.3%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 33% (26% excluding currency translation effects) to SEK 1,288m (970). Earnings were positively impacted by higher prices, a better mix, higher volumes, lower raw material and energy costs and cost savings. Stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to increase growth entailed increased sales costs.

DISTRIBUTION OF SHARES

September 30, 2019	Class A	Class B	Total
Registered number of shares	63,934,642	638,407,847	702,342,489

At the end of the period, the proportion of Class A shares was 9.1%. No shares were converted during the period. The total number of votes in the company amounts to 1,277,754,267.

FUTURE REPORTS

The Year-end Report for 2019 will be published on January 22, 2020. Essity's Annual Report for 2019 is intended to be published in the week beginning March 9, 2020. In 2020, interim reports will be published on April 23, July 17 and October 22.

ANNUAL GENERAL MEETING

Essity's Annual General Meeting will be held in Stockholm on April 2, 2020.

INVITATION TO PRESENTATION OF INTERIM REPORT THIRD QUARTER 2019

Media and analysts are invited to participate in a telephone and web presentation at which President and CEO Magnus Groth will present the report and respond to questions.

Presentation

Date: Friday, October 25, 2019

Time: 9:00 a.m. CET

Link to Web presentation: <https://essity.videosync.fi/2019-10-25-q3>

Telephone: +44 (0)207 192 80 00, +1 631 510 74 95 or +46 (0)8 506 921 80. Please call in well in advance of the start of the presentation. Indicate "Essity" or conference ID 2985420.

Stockholm, October 25, 2019

Essity Aktiebolag (publ)

Magnus Groth

President and CEO

For further information, please contact:

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NB:

This information is such 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 07:00 CET on October 25, 2019. This interim report was not reviewed by the company's auditors.
Karl Stoltz, Media Relations Manager, +46 (0)8 788 51 55

CONDENSED STATEMENT OF PROFIT OR LOSS

SEKm	2019:3	2018:3	2019:2	1909	1809
Net sales	32,565	29,647	32,068	95,289	87,388
Cost of goods sold ^{1,2}	-22,793	-21,416	-22,779	-67,879	-62,484
Items affecting comparability ¹	23	-773	-156	-232	-1,508
Gross profit	9,795	7,458	9,133	27,178	23,396
Sales, general and administration ¹	-5,594	-5,221	-5,553	-16,333	-15,464
Items affecting comparability ²	-224	-238	-166	-479	109
Share of profits of associates and joint ventures	-2	6	-4	21	44
Operating profit before amortization of acquisition-related intangible assets	3,975	2,005	3,410	10,387	8,085
Amortization of acquisition-related intangible assets ¹	-196	-187	-193	-576	-537
Items affecting comparability ²	0	-5	0	0	-5
Operating profit	3,779	1,813	3,217	9,811	7,543
Financial items	-320	-332	-344	-1,006	-921
Profit before tax	3,459	1,481	2,873	8,805	6,622
Tax	-723	-403	-372	-1,639	-1,687
Profit for the period	2,736	1,078	2,501	7,166	4,935
Earnings attributable to:					
Owners of the parent	2,477	988	2,274	6,500	4,483
Non-controlling interests	259	90	227	666	452
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	3.53	1.41	3.24	9.25	6.38
- after dilution effects	3.53	1.41	3.24	9.25	6.38
¹ Of which, depreciation	-1,879	-1,577	-1,865	-5,552	-4,564
² Of which, impairment	72	-239	-55	6	-556
Gross margin	30.1	25.2	28.5	28.5	26.8
EBITA margin	12.2	6.8	10.6	10.9	9.3
Operating margin	11.6	6.1	10.0	10.3	8.6
Financial net margin	-1.0	-1.1	-1.1	-1.1	-1.1
Profit margin	10.6	5.0	8.9	9.2	7.5
Tax	-2.2	-1.4	-1.2	-1.7	-1.9
Net margin	8.4	3.6	7.7	7.5	5.6
Excluding items affecting comparability:					
Gross margin	30.0	27.8	29.0	28.8	28.5
EBITA margin	12.8	10.2	11.6	11.6	10.9
Operating margin	12.2	9.5	11.0	11.0	10.2
Financial net margin	-1.0	-1.1	-1.1	-1.1	-1.1
Profit margin	11.2	8.4	9.9	9.9	9.1
Tax	-2.2	-2.3	-1.5	-1.9	-2.4
Net margin	9.0	6.1	8.4	8.0	6.7

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

SEKm	2019:3	2018:3	2019:2	1909	1809
Profit for the period	2,736	1,078	2,501	7,166	4,935
Other comprehensive income for the period					
Items that may not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	-1,169	597	-492	-2,004	1,160
Measured at fair value through other comprehensive income	1	0	2	6	-1
Income tax attributable to components of other comprehensive income	222	-104	121	444	-283
	-946	493	-369	-1,554	876
Items that have been or may be reclassified subsequently to the income statement					
Cash flow hedges	58	235	-49	-346	396
Translation differences in foreign operations	1,967	-1,500	176	4,454	2,639
Gains/losses from hedges of net investments in foreign operations	-146	287	4	-357	-422
Other comprehensive income from associated companies	-5	1	1	-15	10
Income tax attributable to components of other comprehensive income	16	-124	8	154	-6
	1,890	-1,101	140	3,890	2,617
Other comprehensive income for the period, net of tax	944	-608	-229	2,336	3,493
Total comprehensive income for the period	3,680	470	2,272	9,502	8,428
Total comprehensive income attributable to:					
Owners of the parent	3,213	719	2,050	8,319	7,727
Non-controlling interests	467	-249	222	1,183	701

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	1909	1809
Attributable to owners of the parent		
Opening balance, January 1	47,141	42,289
Effect attributable to changed accounting standard IFRS 9	0	-9
Tax effect attributable to changed accounting standard IFRS 9	0	2
Total comprehensive income for the period	8,319	7,727
Dividend	-4,038	-4,038
Private placement to non-controlling interests	2	2
Transferred to cost of hedged investment	8	-2
Closing balance	51,432	45,971
Non-controlling interests		
Opening balance, January 1	7,758	7,281
Total comprehensive income for the period	1,183	701
Dividend	-343	-316
Private placement to non-controlling interests	2	1
Closing balance	8,600	7,667
Total equity, closing balance	60,032	53,638

CONSOLIDATED OPERATING CASH FLOW STATEMENT

The comparative periods for nine months and full-year 2018 have been restated

SEKm	1909	1809	1812
Operating cash surplus	16,279	13,624	18,570
Change in working capital	-133	-1,671	-971
Capital expenditures non-current assets, net	-3,761	-4,609	-6,781
Restructuring costs, etc.	-1,166	-689	-918
Operating cash flow before Investments in operating assets through leases	11,219	6,655	9,900
Investments in operating assets through leases	-333	0	0
Operating cash flow	10,886	6,655	9,900
Financial items	-1,006	-921	-1,157
Income taxes paid	-359	-1,851	-2,466
Other	8	85	86
Cash flow from current operations	9,529	3,968	6,363
Acquisitions	-10	-682	-694
Divestments	220	1	68
Cash flow before dividend	9,739	3,287	5,737
Private placement to non-controlling interests	4	3	5
Dividend to non-controlling interests	-303	-316	-397
Dividend	-4,038	-4,038	-4,038
Net cash flow	5,402	-1,064	1,307
Net debt at the start of the period	-54,404	-52,467	-52,467
Changed opening balance for net debt due to IFRS 16 Leases	-3,786	0	0
Net cash flow	5,402	-1,064	1,307
Remeasurement to equity	-1,998	1,159	-1,042
Investments in non-operating assets through leases	-380	0	0
Translation differences	-2,738	-2,123	-2,202
Net debt at the end of the period	-57,904	-54,495	-54,404
Debt/equity ratio	0.96	1.02	0.99
Debt payment capacity, %	31	25	25
Net debt / EBITDA	2.87	3.09	3.11
Net debt / Adjusted EBITDA	2.76	2.95	2.96

Comments on the consolidated operating cash flow statement

As of 2019, strategic capital expenditures will be recognized together with current capital expenditures and be included in Investments in non-current assets, net. Previously, strategic capital expenditures were recognized under cash flow from current operations together with acquisitions and divestments. The effect of the restatement of comparative periods entailed a decrease in operating cash flow and cash flow from current operations of SEK -1,746m for the first nine months of 2018 and SEK -2,424m for full-year 2018. Net cash flow is unchanged for periods in the preceding year.

Investments in operating assets through leases are recognized separately and subtotals for operating cash flow before and after these investments have been introduced into the operating cash flow statement. Investments in non-operating assets through leases do not constitute part of operating cash flow but are instead recognized as a change in net debt. The initial effect of the transition to IFRS 16 is also recognized on a line in change in net debt.

CONSOLIDATED CASH FLOW STATEMENT**The comparative periods for nine months and full-year 2018 have been restated**

SEKm	1909	1809	1812
Operating activities			
Operating profit	9,811	7,543	10,759
Adjustment for non-cash items ¹	6,218	5,899	7,562
Interest paid	-822	-719	-818
Interest received	82	59	85
Other financial items	-338	-299	-408
Change in liabilities relating to restructuring programs, etc.	-908	-422	-583
Paid tax	-359	-1,851	-2,466
Cash flow from operating activities before changes in working capital	13,684	10,210	14,131
Cash flow from changes in working capital			
Change in inventories	-611	-1,419	-1,017
Change in operating receivables	-936	-1,003	-344
Change in operating liabilities	1,414	751	390
Cash flow from operating activities	13,551	8,539	13,160
Investing activities			
Company acquisitions	-10	-452	-461
Divestments	6	1	68
Investments in property, plant and equipment and intangible assets	-3,910	-4,643	-6,882
Sale of property, plant and equipment	185	64	134
Loans granted to external parties	-65	0	0
Repayment of loans from external parties	0	244	178
Paid interest capitalized in property, plant and equipment and intangible assets	-36	-21	-24
Cash flow from investing activities	-3,830	-4,807	-6,987
Financing activities			
Private placement to non-controlling interests	4	3	5
Dividend	-4,038	-4,038	-4,038
Loans raised	1,151	3,994	4,386
Amortization of debt	-5,490	-4,492	-7,295
Dividend to non-controlling interests	-303	-316	-397
Cash flow from financing activities	-8,676	-4,849	-7,339
Cash flow for the period	1,045	-1,117	-1,166
Cash and cash equivalents at the beginning of the period	3,008	4,107	4,107
Exchange differences in cash and cash equivalents	184	64	67
Cash and cash equivalents at the end of the period	4,237	3,054	3,008
Cash flow from operating activities per share, SEK	19.29	12.16	18.74

CONSOLIDATED CASH FLOW STATEMENT (cont.)

SEKm	1909	1809	1812
Reconciliation with consolidated operating cash flow statement			
Cash flow for the period	1,045	-1,117	-1,166
Amortization of debt	5,490	4,492	7,295
Loans raised	-1,151	-3,994	-4,386
Loans granted to external parties	65	0	0
Repayment of loans from external parties	0	-244	-178
Investment through financial lease	-333	-9	-8
Net debt in acquired and divested operations	214	-231	-234
Accrued interest	72	39	-16
Net cash flow according to consolidated operating cash flow statement	5,402	-1,064	1,307
<i>¹⁾ Adjustment for non-cash items</i>			
<i>Depreciation/amortization and impairment of non-current assets</i>	<i>5,546</i>	<i>5,120</i>	<i>6,709</i>
<i>Gain/loss on asset sales and swaps</i>	<i>-15</i>	<i>14</i>	<i>35</i>
<i>Change, provision related to antitrust cases</i>	<i>0</i>	<i>95</i>	<i>95</i>
<i>Gain/loss on divestments</i>	<i>131</i>	<i>-1</i>	<i>-69</i>
<i>Unpaid relating to efficiency program</i>	<i>233</i>	<i>665</i>	<i>669</i>
<i>Change, one-time foreign tax on non-current assets</i>	<i>0</i>	<i>-258</i>	<i>-288</i>
<i>Share of profits of associated companies, items affecting comparability (Asaleo Care Ltd)</i>	<i>0</i>	<i>257</i>	<i>278</i>
<i>Revaluation effect of previously owned holding upon acquisition</i>	<i>0</i>	<i>-225</i>	<i>-225</i>
<i>Other</i>	<i>323</i>	<i>232</i>	<i>358</i>
<i>Total</i>	<i>6,218</i>	<i>5,899</i>	<i>7,562</i>

Comments on the consolidated cash flow statement

Until 2018, payments were recognized for pension plans with a surplus in cash flow from investing activities and payments for pension plans with a deficit in cash flow from financing activities. From 2019, all payments for pensions are recognized in cash flow from financing activities given that Essity has a net pension liability. The change means that the comparative periods – the first nine months of 2018 and full-year 2018 – were restated, which is why cash flow from investing activities was changed by SEK +439m and cash flow from financing activities was changed by SEK -439m compared with the figures presented in the interim report for the third quarter of 2018. The effect of the restatement of comparative periods for full-year 2018 resulted in a change in cash flow of SEK +518m from investing activities and a change in cash flow from financing activities of SEK -518m. Cash flow from operating activities is unchanged for the periods.

CONSOLIDATED BALANCE SHEET

SEKm	September 30, 2019	December 31, 2018
Assets		
Goodwill	35,655	33,553
Other intangible assets	21,940	21,475
Buildings, land, machinery and equipment	58,135	51,673
Participation in joint ventures and associates	828	777
Shares and participation	15	29
Surplus in funded pension plans	1,589	1,117
Non-current financial assets	736	634
Deferred tax assets	2,550	2,158
Other non-current assets	729	705
Total non-current assets	122,177	112,121
Inventories	16,631	15,234
Trade receivables	20,797	18,687
Current tax assets	749	2,126
Other current receivables	2,579	2,599
Current financial assets	478	422
Non-current assets held for sale	47	69
Cash and cash equivalents	4,237	3,008
Total current assets	45,518	42,145
Total assets	167,695	154,266
Equity		
Share capital	2,350	2,350
Reserves	8,403	5,003
Retained earnings	40,679	39,788
Attributable to owner of the parent	51,432	47,141
Non-controlling interests	8,600	7,758
Total equity	60,032	54,899
Liabilities		
Non-current financial liabilities	45,305	43,500
Provisions for pensions	7,561	5,258
Deferred tax liabilities	7,039	7,272
Other non-current provisions	689	1,694
Other non-current liabilities	102	71
Total non-current liabilities	60,696	57,795
Current financial liabilities	12,078	10,827
Trade payables	16,665	15,911
Current tax liabilities	1,407	570
Current provisions	1,262	1,472
Other current liabilities	15,555	12,792
Total current liabilities	46,967	41,572
Total liabilities	107,663	99,367
Total equity and liabilities	167,695	154,266

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	September 30, 2019	December 31, 2018
Debt/equity ratio	0.96	0.99
Equity/assets ratio	31%	31%
Equity	60,032	54,899
Equity per share	85	78
Return on equity	19.0%	16.1%
Return on equity excluding items affecting comparability	20.0%	18.0%
Capital employed	117,936	109,303
- of which working capital	7,793	7,568
Return on capital employed*	12.2%	10.8%
Return on capital employed* excluding items affecting comparability	12.8%	12.0%
Net debt	57,904	54,404
Provisions for restructuring costs are included in the balance sheet as follows:		
-Other non-current provisions	170	118
-Other current provisions	813	905
Provisions for tax risks are included in the balance sheet as follows:		
-Other non-current provisions	0	701
-Other current provisions	0	12

*) rolling 12 months

NET SALES (business area reporting)

SEKm	1909	1809	2019:3	2019:2	2019:1	2018:4	2018:3	2018:2
Personal Care	35,915	33,639	12,216	12,164	11,535	11,703	11,408	11,446
Consumer Tissue	36,635	33,031	12,220	12,167	12,248	12,094	10,912	11,116
Professional Hygiene	22,740	20,695	8,131	7,742	6,867	7,322	7,309	7,168
Other	-1	23	-2	-5	6	-7	18	-9
Total net sales	95,289	87,388	32,565	32,068	30,656	31,112	29,647	29,721

ADJUSTED EBITA (business area reporting)

SEKm	1909	1809	2019:3	2019:2	2019:1	2018:4	2018:3	2018:2
Personal Care	4,990	4,702	1,739	1,711	1,540	1,652	1,565	1,605
Consumer Tissue	3,554	2,491	1,319	1,166	1,069	840	635	890
Professional Hygiene	3,055	2,756	1,288	1,026	741	1,085	970	1,014
Other	-501	-465	-170	-171	-160	-126	-154	-160
Total adjusted EBITA	11,098	9,484	4,176	3,732	3,190	3,451	3,016	3,349

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	1909	1809	2019:3	2019:2	2019:1	2018:4	2018:3	2018:2
Personal Care	4,447	4,193	1,554	1,529	1,364	1,470	1,387	1,434
Consumer Tissue	3,549	2,490	1,317	1,164	1,068	836	635	890
Professional Hygiene	3,026	2,729	1,278	1,016	732	1,076	960	1,005
Other	-500	-465	-169	-170	-161	-126	-153	-161
Total adjusted operating profit¹	10,522	8,947	3,980	3,539	3,003	3,256	2,829	3,168
Financial items	-1,006	-921	-320	-344	-342	-236	-332	-299
Profit before tax¹	9,516	8,026	3,660	3,195	2,661	3,020	2,497	2,869
Tax	-1,809	-2,092	-730	-482	-597	602	-670	-745
Net profit for the period²	7,707	5,934	2,930	2,713	2,064	3,622	1,827	2,124
¹ Excluding items affecting comparability before tax amounting to:	-711	-1,404	-201	-322	-188	-40	-1,016	-29
² Excluding items affecting comparability after tax amounting to:	-541	-999	-194	-212	-135	-5	-749	7

ADJUSTED EBITA MARGIN (business area reporting)

%	1909	1809	2019:3	2019:2	2019:1	2018:4	2018:3	2018:2
Personal Care	13.9	14.0	14.2	14.1	13.4	14.1	13.7	14.0
Consumer Tissue	9.7	7.5	10.8	9.6	8.7	6.9	5.8	8.0
Professional Hygiene	13.4	13.3	15.8	13.3	10.8	14.8	13.3	14.1

STATEMENT OF PROFIT OR LOSS

SEKm	2019:3	2019:2	2019:1	2018:4	2018:3
Net sales	32,565	32,068	30,656	31,112	29,647
Cost of goods sold	-22,793	-22,779	-22,307	-22,574	-21,416
Items affecting comparability	23	-156	-99	71	-773
Gross profit	9,795	9,133	8,250	8,609	7,458
Sales, general and administration	-5,594	-5,553	-5,186	-5,106	-5,221
Items affecting comparability	-224	-166	-89	-47	-238
Share of profits of associates and joint ventures	-2	-4	27	19	6
EBITA	3,975	3,410	3,002	3,475	2,005
Amortization of acquisition-related intangible assets	-196	-193	-187	-195	-187
Items affecting comparability	0	0	0	-64	-5
Operating profit	3,779	3,217	2,815	3,216	1,813
Financial items	-320	-344	-342	-236	-332
Profit before tax	3,459	2,873	2,473	2,980	1,481
Taxes	-723	-372	-544	637	-403
Net profit for the period	2,736	2,501	1,929	3,617	1,078

INCOME STATEMENT PARENT COMPANY

SEKm	1909	1809
Administrative expenses	-504	-581
Other operating income	18	21
Operating loss	-486	-560
Financial items	3,536	5,309
Profit before tax	3,050	4,749
Tax on profit for the period	211	194
Profit for the period	3,261	4,943

BALANCE SHEET PARENT COMPANY

SEKm	September 30, 2019	December 31, 2018
Intangible fixed assets	0	0
Tangible fixed assets	7	5
Financial fixed assets	176,302	175,447
Total fixed assets	176,309	175,452
Total current assets	960	3,041
Total assets	177,269	178,493
Restricted equity	2,350	2,350
Unrestricted equity	87,082	87,859
Total equity	89,432	90,209
Untaxed reserves	1	1
Provisions	926	879
Non-current liabilities	37,459	39,226
Current liabilities	49,451	48,178
Total equity, provisions and liabilities	177,269	178,493

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, 2019, Essity applies the following new or amended International Financial Reporting Standards (IFRS):

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

IFRS 16 Leases, transition

When the standard became effective on January 1, 2019, Essity applied the modified retrospective approach, entailing an adjustment of the opening balances with the cumulative effect of initially applying the standard on the first date of initial application and that no comparative years were restated.

The lease liability is measured at the present value of the outstanding lease payments and the right-of-use asset for all leases totals an amount corresponding to the lease liability, adjusted for any prepaid lease payments and accrued lease payments recognized on December 31, 2018. For onerous leases, Essity chose in connection with the transition to IFRS 16 to utilize the option to adjust the value of the right-of-use asset downward in an amount corresponding to the estimates of onerous leases carried out in accordance with IAS 37 for the operating leases. Provisions for operating leases were recognized in the year-end accounts for 2018 as non-current and current provisions. This practical solution was applied as a substitute for an impairment test upon transition to IFRS 16. An impairment test will subsequently be applied by the company. An incremental borrowing rate has been set for each currency. The average incremental borrowing rate on January 1, 2019 was approximately 3%. The transition does not have any impact on equity.

Essity has decided to apply the exemption rules for short-term leases and leases where the underlying asset has a low value. These leases are not included in the right-of-use asset or the liability. In its application of the standard, Essity has determined that a time horizon of five years can generally be applied to leases of offices and distribution centers with no fixed end date even if the formal lease term is shorter.

Leases recognized in the statement of profit or loss and balance sheet

SEKm	Properties	Vehicles	Other	Total	Lease liabilities
Opening balance, Jan 1, 2019 as stated in AR 2018	-	-	-	3,694	3,684
Adjusted opening balance				87	102
Adjusted opening balance	3,357	410	14	3,781	3,786
Additional rights of use, net	584	119	10	713	713
Leases, divestments	-46	-	-	-46	-46
Depreciation	-488	-167	-5	-660	-
Interest expenses	-	-	-	-	82
Payments	-	-	-	-	-706
Translation differences	148	19	1	168	170
Value at end of period	3,555	381	20	3,956	3,998

Lease liabilities consist of:

Short-term component	888
Long-term component	3,110

During the period, SEK 191m was recognized relating to costs for short-term leases, leases of low-value assets and variable lease payments.

When the standard became effective on January 1, 2019, the following adjustments were recognized in Essity's balance sheet. The right-of-use assets largely comprise leases for offices and distribution centers:

Effect of IFRS 16, SEKm	Opening balance, January 1, 2019
Right-of-use asset	3,781
Non-current lease liability	3,146
Current financial lease liabilities	640
Provisions (reclassification to right-of-use asset)	30
Prepaid and accrued lease payments (reclassification to right-of-use asset)	25

Reconciliation of minimum lease fees according to IAS 17 and recognized lease liability according to IFRS 16	
Operating future minimum lease payments, December 31, 2018, according to Note G2, page 105 of AR 2018	3,967
Present-value calculated with the Group's incremental borrowing rate at January 1, 2019	-486
Excluding short-term leases and leases with a low value	-10
Renewal options that are expected to be utilized	213
Lease liability, January 1, 2019, according to AR 2018	3,684
Adjustment of lease liability, January 1, 2019	102
Adjusted lease liability, January 1, 2019	3,786

IFRS 16 Leases. Accounting principles applicable as of January 2019

Upon signing a contract, it is first determined whether the contract constitutes, or contains, a lease.

A contract constitutes, or contains, a lease if:

- it contains an identified asset
- the lessee is entitled to essentially all of the economic benefits that arise in connection with the use of the identified asset
- the lessee is entitled to control the use of the asset

If all of the conditions above are not fulfilled, the contract is not considered to constitute, or contain, a lease and is thus classified as a service contract.

At the beginning of a lease, meaning when the asset is available for use by Essity, a right-of-use asset and a financial liability are recognized in the balance sheet.

The right-of-use asset is measured at cost and includes the following:

- the amount at which the lease liability is valued
- lease payments made at or before the commencement date less any lease incentives received in connection with signing the lease
- initial direct fees
- an estimate of costs, which are expected to be paid, to restore the asset to the condition prescribed in the terms of the lease

The right-of-use asset is recognized under the heading Buildings, land, machinery and equipment in the category non-current assets and is depreciated on a straight-line basis over the shorter period of the asset's anticipated useful life and the lease term. The useful life is assessed on the basis of the term of the underlying contract, taking into account termination and renewal clauses.

The lease liability is measured at the present value of the following lease payments:

- fixed payments, less lease incentives receivables
- variable lease payments based on an index or a rate
- amounts expected to be payable under residual value guarantees
- the exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option
- payment of penalties for terminating the lease, if the lease term reflects that the lessee will exercise this option.

The lease payments are normally discounted using the incremental borrowing rate since the interest rate implicit in the leases generally cannot be readily determined. The incremental borrowing rate applied is determined on the basis of the contract currency in the agreement and the lease duration.

The lease liability is recognized in the balance sheet under the headings non-current financial liabilities and current financial liabilities. Lease liabilities due within 12 months are classified as current liabilities, while those due after 12 months are classified as non-current liabilities. The lease liability is recognized at amortized cost in accordance with the effective interest method. The liability is remeasured when future payments are changed through an index or in another manner, for example if a new assessment is made of future residual value obligations or the exercise of

purchase, renewal or termination options. When the lease liability is remeasured in accordance with the above, a corresponding adjustment is made to the value of the right-of-use asset. Lease payments are allocated between interest expense and amortization of the outstanding lease liability.

Essity has decided to apply the exemption rules for short-term leases and leases where the underlying asset has a low value. These leases are not included in the right-of-use asset or the liability. Lease payments for these contracts are expensed on a straight-line basis over the useful life.

IFRIC 23 Uncertainty over Income Tax Treatments

In 2017, a new interpretation was issued regarding the recognition of taxes, IFRIC 23. The interpretation clarifies how the recognition and measurement of uncertain tax items are to be conducted. Essity applied the modified retrospective approach, meaning that comparative figures were not restated. On account of IFRIC 23, Essity reclassified SEK 713m in current and non-current provisions for tax liabilities in the opening balance for 2019.

In other respects, the accounting principles and calculation methods applied correspond to those described in Essity's 2018 Annual Report.

2 RISKS AND UNCERTAINTIES

Essity's risk exposure and risk management are described on pages 33-38 of the 2018 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 of Directors 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 of Directors 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 of Directors 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	Financial assets measured at fair value through OCI	Financial liabilities measured at amortized cost	Of which fair value by level ¹	
						1	2
September 30, 2019							
Derivatives	1,051	312	739	-	-	-	1,051
Non-current financial assets	98	-	-	98	-	98	-
Total assets	1,149	312	739	98	0	98	1,051
Derivatives	837	674	163	-	-	-	837
Financial liabilities							
Current financial liabilities	11,414	4,307	-	-	7,107	-	4,307
Non-current financial liabilities	45,149	12,555	-	-	32,594	-	12,555
Total liabilities	57,400	17,536	163	-	39,701	-	17,699
December 31, 2018							
Derivatives	1,255	294	961	-	-	-	1,255
Non-current financial assets	87	-	-	87	-	87	-
Total assets	1,342	294	961	87	0	87	1,255
Derivatives	443	399	44	-	-	-	443
Financial liabilities							
Current financial liabilities	10,300	905	-	-	9,395	-	905
Non-current financial liabilities	43,442	16,083	-	-	27,359	-	16,083
Total liabilities	54,185	17,387	44	-	36,754	-	17,431

¹ No financial instruments have been classified to level 3

The total fair value of the above financial liabilities, excluding lease liabilities, is SEK 54,450m (54,434). 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 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 2018 Annual Report (pages 64-69) 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 changed 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

Investments in operating assets through leases: Assets that are directly attributable to operating activities. Primarily leases for distribution centers.

Investments in non-operating assets through leases: Assets that are not directly attributable to operating activities. Primarily leases for offices.

Operating cash flow before investments in operating assets through leases

Description: Operating cash flow consists of the sum of operating cash surplus and change in working capital, with deductions for the net of capital expenditures in non-current assets and restructuring costs.

Reason for use: This is an important control measure in operating activities that the units have control over themselves.

Operating cash flow

Description: Operating cash flow consists of the sum of operating cash surplus and change in working capital, with deductions for the net of capital expenditures in non-current assets and restructuring costs as well as investments in operating assets through leases.

Reason for use: This is an important control measure in operating activities that the units have control over themselves.

Capital employed

SEKm	1909	1812
Total assets	167,695	154,266
-Financial receivables	-7,040	-5,181
-Non-current non-interest bearing liabilities	-7,830	-9,037
-Current non-interest bearing liabilities	-34,889	-30,745
Capital employed	117,936	109,303

SEKm	1909	1906	1903	1812	1809
Personal Care	45,630	45,272	45,033	41,768	41,885
Consumer Tissue	48,421	47,821	48,380	44,915	45,474
Professional Hygiene	24,332	24,245	24,403	22,153	21,291
Other	-447	-1,176	-1,642	467	-517
Capital employed	117,936	116,162	116,174	109,303	108,133

Working capital

SEKm	1909	1812
Inventories	16,631	15,234
Accounts receivables	20,797	18,687
Other current receivables	2,579	2,599
Accounts payables	-16,665	-15,911
Other current liabilities	-15,555	-12,792
Adjustments	6	-249
Working capital	7,793	7,568

Net debt

SEKm	1909	1812
Surplus in funded pension plans	1,589	1,117
Non-current financial assets	736	634
Current financial assets	478	422
Cash and cash equivalents	4,237	3,008
Financial receivables	7,040	5,181
Non-current financial liabilities	45,305	43,500
Provisions for pensions	7,561	5,258
Current financial liabilities	12,078	10,827
Financial liabilities	64,944	59,585
Net debt	57,904	54,404

EBITDA

SEKm	1909	1809	2019:3	2018:3
Operating profit	9,811	7,543	3,779	1,813
-Amortization of acquisition-related intangible assets	576	537	196	187
-Depreciation	4,316	4,027	1,459	1,390
-Depreciation Right-of-use asset	660	0	224	0
-Items affecting comparability, depreciation	-10	541	-73	234
-Impairment	4	10	1	0
-Items affecting comparability, impairment of acquisition-related intangible assets	0	5	0	5
EBITDA	15,357	12,663	5,586	3,629
-Items affecting comparability excluding depreciation and impairment	721	858	274	777
Adjusted EBITDA	16,078	13,521	5,860	4,406

EBITA

SEKm	1909	1809	2019:3	2018:3
Operating profit	9,811	7,543	3,779	1,813
-Amortization of acquisition-related intangible assets	576	537	196	187
-Operating profit before amortization of acquisition-related intangible assets/EBITA	10,387	8,085	3,975	2,005
EBITA margin (%)	10.9	9.3	12.2	6.8
-Items affecting comparability, cost of goods sold	232	1,508	-23	773
-Items affecting comparability, sales and administration costs	479	-109	224	238
Adjusted EBITA	11,098	9,484	4,176	3,016
Adjusted EBITA margin (%)	11.6	10.9	12.8	10.2

Operating cash flow

SEKm	1909	1809	2019:3	2018:3
Personal Care				
Operating cash surplus	6,500	5,758	2,239	1,937
Change in working capital	240	-404	414	116
Capital expenditures non-current assets, net	1,148	-1,320	-199	-424
Restructuring costs, etc.	-586	-272	-434	-30
Operating cash flow before investments in operating assets through leases	5,006	3,762	2,020	1,599
Investment in operating assets through leases	-154	0	-17	0
Operating cash flow	4,852	3,762	2,003	1,599
Consumer Tissue				
Operating cash surplus	5,550	4,171	1,991	1,216
Change in working capital	-740	-826	-397	-188
Capital expenditures non-current assets, net	1,505	-2,284	-422	-787
Restructuring costs, etc.	-148	-176	-73	-115
Operating cash flow before investments in operating assets through leases	3,157	885	1,099	126
Investment in operating assets through leases	-144	0	-113	0
Operating cash flow	3,013	885	986	126
Professional Hygiene				
Operating cash surplus	4,623	4,077	1,837	1,434
Change in working capital	177	-559	703	277
Capital expenditures non-current assets, net	-992	-830	-393	-270
Restructuring costs, etc.	-450	-216	-155	-151
Operating cash flow before investments in operating assets through leases	3,358	2,472	1,992	1,290
Investment in operating assets through leases	-43	0	-35	0
Operating cash flow	3,315	2,472	1,957	1,290

Organic net sales

SEKm	1909	2019:3
Personal Care		
Organic net sales	1,248	512
Currency effect ¹	1,115	410
Acquisition/Disposals	-87	-114
Reported change	2,276	808
Consumer Tissue		
Organic net sales	2,159	886
Currency effect ¹	1,392	422
Acquisition/Disposals	53	0
Reported change	3,604	1,308
Professional Hygiene		
Organic net sales	780	366
Currency effect ¹	1,265	457
Acquisition/Disposals	1	0
Reported change	2,046	823
Essity		
Organic net sales	4,162	1,743
Currency effect ¹	3,772	1,290
Acquisition/Disposals	-33	-115
Reported change	7,901	2,918

¹Consists only of currency translation effects