

Half-year Report 2018

Essity Aktiebolag (publ)



JANUARY 1 – JUNE 30, 2018

(compared with the corresponding period a year ago)

- Net sales increased 8.1% to SEK 57,741m (53,423)
- Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.8%
- Operating profit before amortization of acquisition-related intangible assets (EBITA) increased 9% to SEK 6,080m (5,557)
- Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 2% to SEK 6,468m (6,354)
- Higher raw material costs had a negative impact of SEK 1,898m on earnings
- Adjusted EBITA margin decreased 0.7 percentage points to 11.2% (11.9)
- Adjusted profit before tax decreased 1% to SEK 5,529m (5,566)
- Profit for the period increased 10% to SEK 3,857m (3,497)
- Earnings per share increased 11% to SEK 4.98 (4.47)
- Adjusted earnings per share increased 1% to SEK 5.68 (5.60)
- Cash flow from current operations decreased 13% to SEK 3,033m (3,487)

EARNINGS TREND

SEKm	1806	1706	%	2018:2	2017:2	%
Net sales	57,741	53,423	8	29,721	28,155	6
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) ¹	6,468	6,354	2	3,349	3,437	-3
Operating profit before amortization of acquisition-related intangible assets (EBITA)	6,080	5,557	9	3,320	2,961	12
Amortization of acquisition-related intangible assets	-350	-218		-181	-197	
Adjusted operating profit ¹	6,118	6,136	0	3,168	3,240	-2
Items affecting comparability	-388	-885		-29	-476	
Operating profit	5,730	5,251	9	3,139	2,764	14
Financial items	-589	-570		-299	-304	
Profit before tax	5,141	4,681	10	2,840	2,460	15
Adjusted profit before tax ¹	5,529	5,566	-1	2,869	2,936	-2
Tax	-1,284	-1,184		-709	-619	
Profit for the period	3,857	3,497	10	2,131	1,841	16
Earnings per share, SEK	4.98	4.47		2.90	2.39	
Adjusted earnings per share, SEK ²	5.68	5.60		3.07	3.06	

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

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

SUMMARY OF SECOND QUARTER OF 2018

The Group's net sales increased 5.6% and the earnings per share increased 21% for the second quarter of 2018 compared with the corresponding period a year ago. During the quarter, six innovations were launched that strengthened Essity's customer and consumer offering. To increase efficiency within Consumer Tissue, further restructuring measures were decided, as a part of Tissue Roadmap.

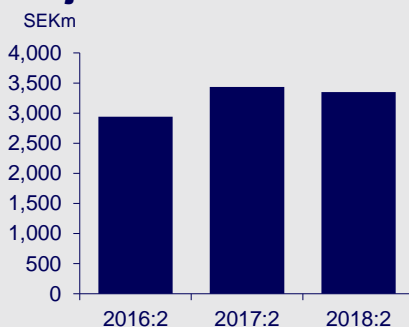
Organic net sales increased 2.3%, of which volume accounted for -0.1% and price/mix for 2.4%. Volumes increased in Personal Care and Professional Hygiene. In Consumer Tissue volumes decreased due to restructuring measures within the scope of Tissue Roadmap, entailing lower sales of mother reels and lower volumes in emerging markets due to price increases. In emerging markets, which accounted for 35% of net sales, organic net sales increased 4.0% while the increase in mature markets was 1.4%.

The Group's adjusted EBITA in the second quarter of 2018 declined 3% compared with the corresponding period a year ago. Earnings were positively impacted by a better price/mix in all business areas, higher volumes and cost savings. The cost savings continued at a high pace and amounted to SEK 355m. Raw material prices have increased sharply. The market price for pulp is about 35% higher compared with the corresponding period a year ago. There was also a significant increase in the market price for oil-based raw materials. In total, higher raw material costs had a negative impact of SEK 1,144m on the Group's earnings for the quarter, which corresponds to a negative impact on the adjusted EBITA margin of -4.0 percentage points. The achieved price increases in Consumer Tissue did not offset the higher raw material costs and the intention is therefore to implement further price increases. The Group's adjusted EBITA margin decreased 0.9 percentage points to 11.3%. The adjusted return on capital employed was 12.3%, and adjusted return on equity was 15.9%. Operating cash flow increased 6%.

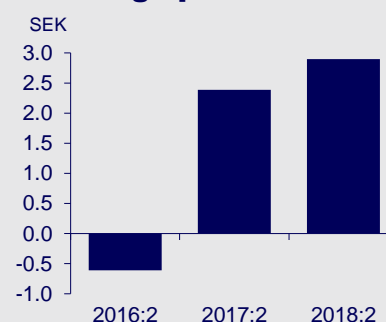
Net sales



Adjusted EBITA



Earnings per share



*Excluding items affecting comparability;
for amounts see page 12.*

ADJUSTED EARNINGS TREND

SEKm	1806	1706	%	2018:2	2017:2	%
Net sales	57,741	53,423	8	29,721	28,155	6
Cost of goods sold ¹	-41,068	-37,714		-21,104	-19,664	
Adjusted gross profit¹	16,673	15,709	6	8,617	8,491	1
Sales, general and administration ¹	-10,205	-9,355		-5,268	-5,054	
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)¹	6,468	6,354	2	3,349	3,437	-3
Amortization of acquisition-related intangible assets ¹	-350	-218		-181	-197	
Adjusted operating profit¹	6,118	6,136	0	3,168	3,240	-2
Financial items	-589	-570		-299	-304	
Adjusted profit before tax¹	5,529	5,566	-1	2,869	2,936	-2
Adjusted tax ¹	-1,422	-1,420		-745	-761	
Adjusted profit for the period¹	4,107	4,146	-1	2,124	2,175	-2
¹ Excluding items affecting comparability; for amounts see page 12.						
Adjusted margins (%)						
Gross margin¹	28.9	29.4		29.0	30.2	
EBITA margin¹	11.2	11.9		11.3	12.2	
Operating margin¹	10.6	11.5		10.7	11.5	
Financial net margin	-1.0	-1.1		-1.0	-1.1	
Profit margin¹	9.6	10.4		9.7	10.4	
Tax ¹	-2.5	-2.7		-2.5	-2.7	
Net margin¹	7.1	7.7		7.2	7.7	
¹ Excluding items affecting comparability; for amounts see page 12.						

ADJUSTED EBITA BY BUSINESS AREA

SEKm	1806	1706	%	2018:2	2017:2	%
Personal Care	3,137	2,842	10	1,605	1,614	-1
Consumer Tissue	1,856	2,161	-14	890	1,010	-12
Professional Hygiene	1,786	1,637	9	1,014	917	11
Other	-311	-286		-160	-104	
Total¹	6,468	6,354	2	3,349	3,437	-3
¹ Excluding items affecting comparability; for amounts see page 12.						

ADJUSTED OPERATING PROFIT BY BUSINESS AREA

SEKm	1806	1706	%	2018:2	2017:2	%
Personal Care	2,806	2,658	6	1,434	1,434	0
Consumer Tissue	1,855	2,157	-14	890	1,008	-12
Professional Hygiene	1,769	1,607	10	1,005	902	11
Other	-312	-286		-161	-104	
Total¹	6,118	6,136	0	3,168	3,240	-2
¹ Excluding items affecting comparability; for amounts see page 12.						

OPERATING CASH FLOW BY BUSINESS AREA

SEKm	1806	1706	%	2018:2	2017:2	%
Personal Care	2,574	2,314	11	1,513	1,251	21
Consumer Tissue	1,383	2,510	-45	457	1,265	-64
Professional Hygiene	1,326	1,249	6	871	401	117
Other	-337	-575		-281	-505	
Total	4,946	5,498	-10	2,560	2,412	6

GROUP

MARKET/EXTERNAL ENVIRONMENT

January–June 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, while 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–June 2018 compared with the corresponding period a year ago

Net sales increased 8.1% compared with the corresponding period a year ago to SEK 57,741m (53,423). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.8%, of which volume accounted for 1.1% and price/mix for 1.7%. Organic net sales increased 1.5% in mature markets and 5.1% in emerging markets. Emerging markets accounted for 35% of net sales. Exchange rate effects increased net sales by 1.2%. Acquisitions increased net sales by 4.1%, of which the acquisition of BSN medical accounted for 3.7% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 0.4%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 2% (declined 5% excluding currency translation effects and acquisitions) to SEK 6,468m (6,354). A better price/mix, higher volumes, cost savings and the acquisition of BSN medical had a positive impact on earnings. Cost savings amounted to SEK 588m. Higher raw material costs had a negative earnings effect of SEK 1,898m. The acquisition of BSN medical increased profit by 5%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

Items affecting comparability amounted to SEK -388m (-885) and include costs of approximately SEK -320m related to restructuring measures in Professional Hygiene in Europe and SEK -140m to restructuring measures at a production facility for Consumer Tissue and Professional Hygiene in Chile. Restructuring measures at a production facility for Consumer Tissue in Spain impacted items affecting comparability by SEK -190m. Acquisitions relating to the increase in the shareholding in associates in Latin America positively impacted items affecting comparability by SEK 175m. 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 255m on items affecting comparability. Other costs negatively impacted items affecting comparability by SEK 168m.

Financial items increased to SEK -589m (-570). 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 1% (8% excluding currency translation effects and acquisitions) to SEK 5,529m (5,566).

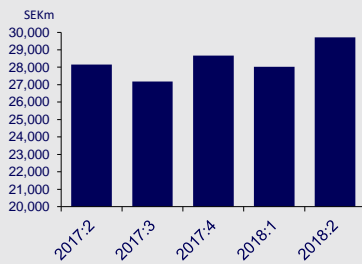
The tax expense, excluding effects of items affecting comparability, was SEK 1,422m (1,420).

Adjusted profit for the period decreased 1% (8% excluding currency translation effects and acquisitions) to SEK 4,107m (4,146).

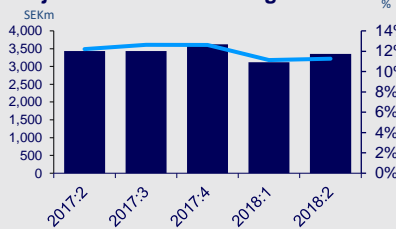
Profit for the period increased 10% (3% excluding currency translation effects and acquisitions) to SEK 3,857m (3,497). Earnings per share were SEK 4.98 (4.47). The adjusted earnings per share were SEK 5.68 (5.60).

The adjusted return on capital employed was 13.0% (15.9). The adjusted return on equity was 19.1% (19.1).

Net sales



Adjusted EBITA and margin



Excluding items affecting comparability

Change in net sales (%)

	1806 vs 1706	18:2 vs 17:2
Total	8.1	5.6
Price/mix	1.7	2.4
Volume	1.1	-0.1
Currency	1.2	2.6
Acquisitions	4.1	0.7
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1806 vs 1706	18:2 vs 17:2
Total	2	-3
Price/mix	11	16
Volume	5	3
Raw materials	-30	-33
Energy	1	0
Currency	1	2
Other	14	9

Adjusted profit before tax



Excluding items affecting comparability

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

Net sales increased 5.6% compared with the corresponding period a year ago to SEK 29,721m (28,155). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.3%, of which volume accounted for -0.1% and price/mix for 2.4%. Volumes increased in Personal Care and Professional Hygiene. In Consumer Tissue, volumes declined due to restructuring measures within the scope of the Tissue Roadmap, entailing lower sales of mother reels and lower volumes in emerging markets due to price increases. Organic net sales increased 1.4% in mature markets and 4.0% in emerging markets. Emerging markets accounted for 35% of net sales. Exchange rate effects increased net sales by 2.6%. 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 3% (5% excluding currency translation effects and acquisitions) to SEK 3,349m (3,437). Earnings were positively impacted by a better price/mix in all business areas, higher volumes and cost savings. The cost savings continued at a high pace and amounted to SEK 355m. Raw material prices have increased sharply. The market price for pulp is about 35% higher compared with the corresponding period a year ago. There was also a significant increase in the market price for oil-based raw materials. In total, higher raw material costs had a negative impact of SEK 1,144m on the Group's earnings for the quarter, which corresponds to a negative impact on the adjusted EBITA margin of -4.0 percentage points. The price increases achieved in Consumer Tissue did not offset the higher raw material costs and the intention is therefore to implement further price increases.

Adjusted profit before tax declined 2% (5% excluding currency translation effects and acquisitions) to SEK 2,869m (2,936).

Profit for the period increased 16% (13% excluding currency translation effects and acquisitions) to SEK 2,131m (1,841). Earnings per share were SEK 2.90 (2.39). The adjusted earnings per share were SEK 3.07 (3.06).

The adjusted return on capital employed was 12.3% (15.7). The adjusted return on equity was 15.9% (19.8).

CASH FLOW AND FINANCING

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

The operating cash surplus amounted to SEK 9,154m (8,832). The cash flow effect of changes in working capital was SEK -1,941m (-1,126). Current capital expenditures amounted to SEK -1,881m (-1,639). Operating cash flow was SEK 4,946m (5,498).

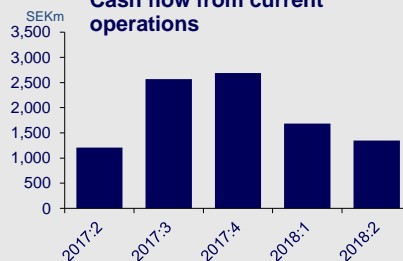
Financial items increased to SEK -589m (-570). The increase is primarily due to higher average net debt. Lower interest had a positive impact on financial items during the period. Income tax payments totaled SEK 1,408m (1,553). Cash flow from current operations amounted to SEK 3,033m (3,487) during the period.

Strategic capital expenditures amounted to SEK -1,178m (-730). The net sum of acquisitions and divestments was SEK -674m (-25,892). Dividends to shareholders impacted cash flow by SEK -4,252m (-135). Net cash flow totaled SEK -3,068m (-22,405).

Net debt increased by SEK 2,053m compared with the same point in time last year and amounted to SEK 57,876m. The increase is attributable to exchange rate movements that increased net debt by approximately SEK 2.7bn. During the period January-June 2018 net debt has increased by SEK 5,409m. Excluding pension liabilities, net debt amounted to SEK 55,113m. Net cash flow increased net debt by SEK 3,068m. 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 562m. Exchange rate movements increased net debt by SEK 2,903m.

The debt/equity ratio was 1.09 (1.25). Excluding pension liabilities, the debt/equity ratio was 1.03 (1.17). The debt payment capacity was 25% (20). Net debt in relation to adjusted EBITDA amounted to 3.08 (3.15).

Cash flow from current operations



EQUITY

January–June 2018

The Group's equity increased by SEK 3,701m during the period, to SEK 53,271m. Net profit for the period increased equity by SEK 3,857m. Equity decreased by SEK 4,252m on account of the dividend to shareholders. Equity increased net after tax by SEK 384m 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 132m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 3,575m. Other items increased equity by SEK 5m.

TAX

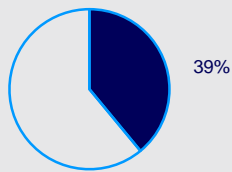
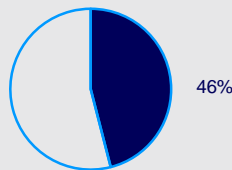
January–June 2018

A tax expense of SEK 1,422m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 25.7% for the period. The tax expense including items affecting comparability was SEK 1,284m, corresponding to a tax rate of 25.0% for the period.

EVENTS DURING THE QUARTER

Essity restructures in Spain

On April 5, 2018, Essity announced that the company is restructuring its Consumer Tissue production in Spain to further increase efficiency. The restructuring costs are expected to amount to approximately SEK 245m, of which approximately SEK 190m was recognized as an item affecting comparability in the second quarter of 2018. The remaining costs will be recognized as an item affecting comparability in the fourth quarter of 2018. Approximately SEK 110m of the restructuring costs is expected to affect cash flow.

Share of Group, net sales
1806Share of Group, adjusted EBITA
1806

Change in net sales (%)

	1806 vs 1706	18:2 vs 17:2
Total	15.2	5.5
Price/mix	0.1	1.3
Volume	3.2	1.1
Currency	0.8	2.0
Acquisitions	11.1	1.1
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1806 vs 1706	18:2 vs 17:2
Total	10	-1
Price/mix	-4	2
Volume	11	6
Raw materials	-16	-18
Energy	0	0
Currency	3	4
Other	16	5

PERSONAL CARE

SEKm	1806	1706	%	2018:2	2017:2	%
Net sales	22,231	19,306	15	11,446	10,851	5
Adjusted EBITA*	3,137	2,842	10	1,605	1,614	-1
Adjusted EBITA margin, %*	14.1	14.7		14.0	14.9	
Adjusted operating profit*	2,806	2,658	6	1,434	1,434	0
Adjusted operating margin, %*	12.6	13.8		12.5	13.2	
Adjusted return on capital employed, %*	15.4	27.2		15.1	24.2	
Operating cash flow	2,574	2,314		1,513	1,251	

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

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

Net sales increased 15.2% to SEK 22,231m (19,306). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.3%, of which volume accounted for 3.2% and price/mix for 0.1%. Organic net sales in mature markets increased 3.1%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 3.9%. Acquisitions increased net sales by 11.1%, of which the acquisition of BSN medical accounted for 10.2% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 0.9%. Exchange rate effects increased net sales by 0.8%.

For Incontinence Products, under the globally leading TENA brand, organic net sales increased 4.4%. Growth was mainly 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 8.5%. The increase is related to both emerging markets and Western Europe.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 10% (declined 5% excluding currency translation effects and acquisitions) to SEK 3,137m (2,842). The increase was mainly related to the acquisition of BSN medical, higher volumes and cost savings. Higher raw material costs and lower prices negatively impacted earnings. Acquisitions increased profit by 13%, of which the acquisition of BSN medical accounted for 12% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 1%.

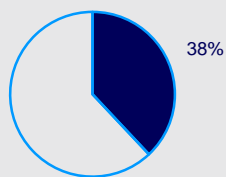
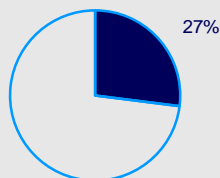
The operating cash surplus amounted to SEK 3,821m (3,421).

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

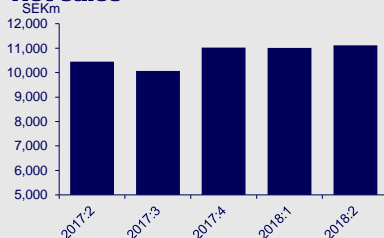
Net sales increased 5.5% to SEK 11,446m (10,851). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.4%, of which volume accounted for 1.1% and price/mix for 1.3%. Organic net sales in mature markets increased 2.2%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 3.2%. 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 2.0%.

For Incontinence Products, under the globally leading TENA brand, organic net sales increased 3.5%. 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 increased 3.1%. The increase was attributable to emerging markets, North America and Western Europe. For Baby Care, organic net sales decreased 5.7%. The decrease was related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 10.0%. The increase was mainly related to Latin America and Europe.

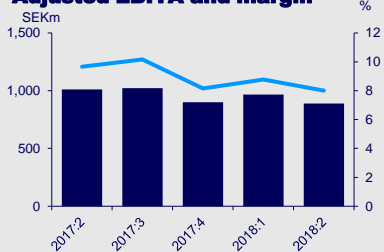
Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), decreased 1% (5% excluding currency translation effects and acquisitions) to SEK 1,605m (1,614). The decrease was mainly related to higher raw material costs. Higher volumes, a better price/mix and cost savings positively impacted earnings. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

Share of Group, net sales
1806Share of Group, adjusted EBITA
1806

Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1806 vs 1706	18:2 vs 17:2
Total	5.7	6.4
Price/mix	2.6	3.4
Volume	0.2	-1.7
Currency	2.6	4.1
Acquisitions	0.3	0.6
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1806 vs 1706	18:2 vs 17:2
Total	-14	-12
Price/mix	24	35
Volume	1	-1
Raw materials	-58	-71
Energy	1	0
Currency	-1	-1
Other	19	26

CONSUMER TISSUE

SEKm	1806	1706	%	2018:2	2017:2	%
Net sales	22,119	20,922	6	11,116	10,449	6
Adjusted EBITA*	1,856	2,161	-14	890	1,010	-12
Adjusted EBITA margin, %*	8.4	10.3		8.0	9.7	
Adjusted operating profit*	1,855	2,157	-14	890	1,008	-12
Adjusted operating margin, %*	8.4	10.3		8.0	9.6	
Adjusted return on capital employed, %*	8.6	10.9		7.8	9.8	
Operating cash flow	1,383	2,510		457	1,265	

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

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

Net sales increased 5.7% to SEK 22,119m (20,922). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.8%, of which volume accounted for 0.2% and price/mix for 2.6%. The increase was mainly attributable to Asia and Europe. Organic net sales increased 1.2% in mature markets. In emerging markets, which accounted for 43% of net sales, organic net sales increased by 4.5%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.3%. Exchange rate effects increased net sales by 2.6%.

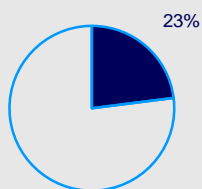
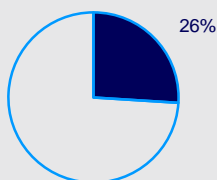
Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 14% (14% excluding currency translation effects and acquisitions) to SEK 1,856m (2,161). The decrease was primarily related to higher raw material costs, which negatively impacted earnings by SEK 1,254m. The higher raw material costs were mainly the result of higher pulp prices. A better price/mix, higher volumes, lower energy costs and cost savings positively impacted earnings.

The operating cash surplus totaled SEK 2,955m (3,193).

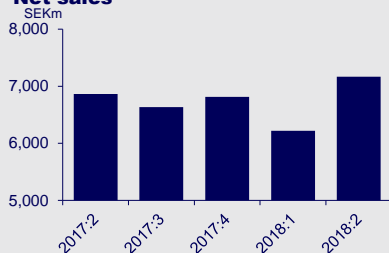
Second quarter of 2018 compared with the corresponding period a year ago

Net sales increased 6.4% to SEK 11,116m (10,449). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.7%, of which volume accounted for -1.7% and price/mix for 3.4%. The increase was mainly attributable to Asia and Europe. The lower volumes were the result of restructuring measures within the scope of Tissue Roadmap, entailing lower sales of mother reels and lower volumes in emerging markets due to price increases. Organic net sales increased 0.8% in mature markets. In emerging markets, which accounted for 43% of net sales, organic net sales increased by 2.5%. 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 4.1%.

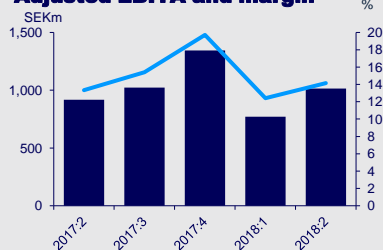
Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 12% (12% excluding currency translation effects and acquisitions) to SEK 890m (1,010). Earnings were positively impacted by a better price/mix and cost savings. Higher raw material costs negatively affected earnings by SEK 718m, corresponding to a negative impact on the adjusted EBITA margin of 6.7 percentage points. Raw material prices have increased sharply. The higher raw material costs were mainly the result of higher pulp prices. The market price for pulp is about 35% higher compared with the corresponding period a year ago. Selling prices were higher in Asia, Europe and Latin America. The achieved price increases did not offset the higher raw material costs and the intention is therefore to implement further price increases. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

Share of Group, net sales
1806Share of Group, adjusted EBITA
1806

Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1806 vs 1706	18:2 vs 17:2
Total	1.0	4.4
Price/mix	2.5	2.8
Volume	-0.8	0.2
Currency	-0.8	1.3
Acquisitions	0.1	0.1
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1806 vs 1706	18:2 vs 17:2
Total	9	11
Price/mix	17	18
Volume	0	1
Raw materials	-11	-14
Energy	0	-1
Currency	1	2
Other	2	5

PROFESSIONAL HYGIENE

SEKm	1806	1706	%	2018:2	2017:2	%
Net sales	13,386	13,249	1	7,168	6,866	4
Adjusted EBITA*	1,786	1,637	9	1,014	917	11
Adjusted EBITA margin, %*	13.3	12.4		14.1	13.4	
Adjusted operating profit*	1,769	1,607	10	1,005	902	11
Adjusted operating margin, %*	13.2	12.1		14.0	13.1	
Adjusted return on capital employed, %*	20.4	18.0		19.1	17.8	
Operating cash flow	1,326	1,249		871	401	

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

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

Net sales increased 1.0% to SEK 13,386m (13,249). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.7%, of which volume accounted for -0.8% 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 11.9%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.1%. Exchange rate effects decreased net sales by 0.8%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 9% (9% excluding currency translation effects and acquisitions) to SEK 1,786m (1,637). The increase was primarily attributable to a better price/mix and cost savings. Higher raw material costs had a negative impact on earnings.

The operating cash surplus was SEK 2,643m (2,476).

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

Net sales increased 4.4% to SEK 7,168m (6,866). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.0%, of which volume accounted for 0.2% and price/mix for 2.8%. The increase was primarily related to Asia, Latin America and Europe. The price/mix was positively impacted by higher prices and a better mix in Europe and North America. Organic net sales increased 1.0% 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 1.3%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 11% (9% excluding currency translation effects and acquisitions) to SEK 1,014m (917). The increase was primarily attributable to a better price/mix, higher volumes and cost savings. Higher raw material costs, primarily due to increased pulp prices, had a negative impact on earnings.

The Board of Directors and President certify that the interim report gives a true and fair view of the Parent Company's and Group's operations, financial position and results of operations, and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, July 19, 2018

Essity Aktiebolag (publ)

Ewa Björling
Board member

Pär Boman
Chairman of the
Board

Tina Elvingsson Engfors
Board member,
appointed by the
employees

Maija-Liisa Friman
Board member

Annemarie Gardshol
Board member

Magnus Groth
President and CEO
Board member

Bert Nordberg
Board member

Louise Svanberg
Board member

Örjan Svensson
Board member,
appointed by the
employees

Lars Rebien
Sørensen
Board member

Barbara Milian
Thoralfsson
Board member

Niclas Thulin
Board member,
appointed by the
employees

Review report

Essity Aktiebolag (publ), Corp. Reg. No. 556325-5511

Introduction

We have reviewed this interim report for Essity Aktiebolag (publ.) as per June 30, 2018, and the six-month period then ended. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Approach and scope of the review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA) and other generally accepted auditing practices.

The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion based on a review does not give the same level of assurance as a conclusion based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act for the Group, and in accordance with the Annual Accounts Act for the Parent Company.

Stockholm, July 19, 2018

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

DISTRIBUTION OF SHARES

June 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%. During the second quarter, 425 Class A shares were converted into Class B shares at the request of shareholders. The total number of votes in the company thereafter amounts to 1,279,087,806.

FUTURE REPORTS

In 2018, interim reports will be published on October 29. The year-end report for 2018 will be published on January 31, 2019.

INVESTOR DAY

Essity will host an Investor Day in Stockholm on December 5, 2018.

INVITATION TO PRESS CONFERENCE ON THE HALF-YEAR REPORT 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, Thursday, July 19, 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) 203 009 57 10, +1 866 869 23 21 or +46 8 506 921 85. Specify "Essity" or conference ID no. 5288956.

Link to webcast: <https://essity.videosync.fi/2018-07-19-q2>

Stockholm, July 19, 2018
Essity Aktiebolag (publ)

Magnus Groth
President and CEO

For further information, please contact:

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Media Relations, Group Function Communications, +46 8 788 52 20

NB:

This information is such information that Essity Aktiebolag (publ) is obligated to make public pursuant to the EU Market Abuse Regulation and the Swedish Securities Markets Act. 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 July 19, 2018. This interim report was reviewed by the company's auditors.

Henrik Sjöström, Media Relations Manager, +46 8 788 51 36

CONDENSED STATEMENT OF PROFIT OR LOSS

SEK m	2018:2	2017:2	2018:1	1806	1706
Net sales	29,721	28,155	28,020	57,741	53,423
Cost of goods sold ^{1,2}	-21,104	-19,664	-19,964	-41,068	-37,714
Items affecting comparability ^{1,2}	-181	-360	-554	-735	-572
Gross profit	8,436	8,131	7,502	15,938	15,137
Sales, general and administration ¹	-5,279	-5,109	-4,964	-10,243	-9,439
Items affecting comparability ²	152	-116	195	347	-225
Share of profits of associates and joint ventures	11	55	27	38	84
Operating profit before amortization of acquisition-related intangible assets	3,320	2,961	2,760	6,080	5,557
Amortization of acquisition-related intangible assets ¹	-181	-197	-169	-350	-218
Items affecting comparability ²	0	0	0	0	-88
Operating profit	3,139	2,764	2,591	5,730	5,251
Financial items	-299	-304	-290	-589	-570
Profit before tax	2,840	2,460	2,301	5,141	4,681
Tax	-709	-619	-575	-1,284	-1,184
Profit for the period	2,131	1,841	1,726	3,857	3,497
Earnings attributable to:					
Owners of the parent	2,035	1,677	1,460	3,495	3,137
Non-controlling interests	96	164	266	362	360
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	2.90	2.39	2.08	4.98	4.47
- after dilution effects	2.90	2.39	2.08	4.98	4.47
¹ Of which, depreciation	-1,530	-1,510	-1,457	-2,987	-2,780
² Of which, impairment	-19	-201	-298	-317	-387
Gross margin	28.4	28.9	26.8	27.6	28.3
EBITA margin	11.2	10.5	9.9	10.5	10.4
Operating margin	10.6	9.8	9.2	9.9	9.8
Financial net margin	-1.0	-1.1	-1.0	-1.0	-1.1
Profit margin	9.6	8.7	8.2	8.9	8.7
Tax	-2.4	-2.2	-2.1	-2.2	-2.2
Net margin	7.2	6.5	6.1	6.7	6.5
Excluding items affecting comparability:					
Gross margin	29.0	30.2	28.8	28.9	29.4
EBITA margin	11.3	12.2	11.1	11.2	11.9
Operating margin	10.7	11.5	10.5	10.6	11.5
Financial net margin	-1.0	-1.1	-1.0	-1.0	-1.1
Profit margin	9.7	10.4	9.5	9.6	10.4
Tax	-2.5	-2.7	-2.4	-2.5	-2.7
Net margin	7.2	7.7	7.1	7.1	7.7

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

SEKm	2018:2	2017:2	2018:1	1806	1706
Profit for the period	2,131	1,841	1,726	3,857	3,497
Other comprehensive income for the period					
Items that may not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	561	755	2	563	1,534
Income tax attributable to components of other comprehensive income	-172	-178	-7	-179	-414
	389	577	-5	384	1,120
Items that have been or may be reclassified subsequently to the income statement					
Financial assets measured at fair value through comprehensive income	0	0	-1	-1	1
Cash flow hedges	224	-32	-64	160	-219
Translation differences in foreign operations	635	-837	3,504	4,139	-394
Gains/losses from hedges of net investments in foreign operations	416	-856	-1,125	-709	-1,033
Other comprehensive income from associated companies	-5	23	14	9	-6
Income tax attributable to components of other comprehensive income	-146	187	264	118	278
	1,124	-1,515	2,592	3,716	-1,373
Other comprehensive income for the period, net of tax	1,513	-938	2,587	4,100	-253
Total comprehensive income for the period	3,644	903	4,313	7,957	3,244
Total comprehensive income attributable to:					
Owners of the parent	3,402	1,079	3,605	7,007	3,246
Non-controlling interests	242	-176	708	950	-2

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	1806	1706
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	7,007	3,246
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	45,253	37,506
Non-controlling interests		
Opening balance, January 1	7,281	6,376
Total comprehensive income for the period	950	-2
Dividend	-214	-135
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	8,018	7,074
Total equity, closing balance	53,271	44,580
¹ Specification of transaction with owner (Svenska Cellulosa Aktiebolaget SCA)		
Received contribution/given contribution	0	793
Tax effects	0	49
Total	0	842

CONSOLIDATED OPERATING CASH FLOW STATEMENT

SEKm	1806	1706
Operating cash surplus	9,154	8,832
Change in working capital	-1,941	-1,126
Current capital expenditures, net	-1,881	-1,639
Restructuring costs, etc.	-386	-569
Operating cash flow	4,946	5,498
Financial items	-589	-570
Income taxes paid	-1,408	-1,553
Other	84	112
Cash flow from current operations	3,033	3,487
Acquisitions	-675	-25,916
Strategic capital expenditures in non-current assets	-1,178	-730
Divestments	1	24
Cash flow before dividend	1,181	-23,135
Private placement to non-controlling interest	3	27
Dividend to non-controlling interests	-214	-135
Dividend	-4,038	0
Transactions with shareholders	0	838
Net cash flow	-3,068	-22,405
Net debt at the start of the period	-52,467	-35,173
Net cash flow	-3,068	-22,405
Remeasurement to equity	562	1,535
Translation differences	-2,903	220
Net debt at the end of the period	-57,876	-55,823
Debt/equity ratio	1.09	1.25
Debt payment capacity, %	25	20
Net debt / EBITDA	3.11	3.42
Net debt / Adjusted EBITDA	3.08	3.15

CONSOLIDATED CASH FLOW STATEMENT

SEKm	1806	1706
Operating activities		
Profit before tax	5,141	4,681
Adjustment for non-cash items ¹	3,034	3,121
	8,175	7,802
Paid tax	-1,408	-1,553
Cash flow from operating activities before changes in working capital	6,767	6,249
Cash flow from changes in working capital		
Change in inventories	-958	-1,005
Change in operating receivables	-1,237	-419
Change in operating liabilities	254	298
Cash flow from operating activities	4,826	5,123
Investing activities		
Company acquisitions	-449	-12,943
Divestments	1	24
Investments in intangible assets and property, plant and equipment	-3,104	-2,429
Sale of property, plant and equipment	54	64
Loans granted to external parties	-148	-478
Cash flow from investing activities	-3,646	-15,762
Financing activities		
Private placement to non-controlling interests	3	27
Dividend	-4,038	0
Change, receivable from Group companies	0	952
Loans raised	3,699	30,220
Amortization of debt	-1,146	-20,738
Dividend to non-controlling interests	-214	-135
Transactions with shareholders	0	838
Cash flow from financing activities	-1,696	11,164
Cash flow for the period	-516	525
Cash and cash equivalents at the beginning of the period	4,107	4,244
Exchange -differences in cash and cash equivalents	143	-76
Cash and cash equivalents at the end of the period	3,734	4,693
Cash flow from operating activities per share, SEK	6.87	7.29
Reconciliation with consolidated operating cash flow statement		
Cash flow for the period	-516	525
Amortization of debt	1,146	20,738
Loans raised	-3,699	-30,220
Loans granted to external parties	148	478
Investment through financial lease	-9	-4
Change, receivable from Group companies	0	-952
Net debt in acquired and divested operations	-226	-12,974
Adjustment of financial liabilities relating to acquisitions of previous years	0	0
Accrued interest	88	4
Net cash flow according to consolidated operating cash flow statement	-3,068	-22,405
¹ Depreciation/amortization and impairment of non-current assets	3,303	3,167
Gain/loss on asset sales and swaps	12	-7
Change, provision related to antitrust cases	95	-266
Gain/loss on divestments	-1	-1
Unpaid relating to efficiency program	264	39
Payments related to efficiency program already recognized	-156	-327
Change, one-time foreign tax on non-current assets	-256	450
Revaluation effect of previously owned holding upon acquisition	-225	0
Other	-2	66
Total	3,034	3,121

CONSOLIDATED BALANCE SHEET

SEKm	June 30, 2018	December 31, 2017
Assets		
Goodwill	34,138	31,697
Other intangible assets	22,074	21,424
Buildings, land, machinery and equipment	52,191	48,482
Participation in joint ventures and associates	1,051	1,062
Shares and participation	25	32
Surplus in funded pension plans	1,953	1,148
Non-current financial assets	523	552
Deferred tax assets	2,361	2,232
Other non-current assets	637	469
Total non-current assets	114,953	107,098
Inventories	15,605	13,739
Trade receivables	19,505	17,607
Current tax assets	932	769
Other current receivables	3,186	2,549
Current financial assets	307	1,105
Non-current assets held for sale	40	42
Cash and cash equivalents	3,734	4,107
Total current assets	43,309	39,918
Total assets	158,262	147,016
Equity		
Share capital	2,350	2,350
Reserves	6,273	3,154
Retained earnings	36,630	36,785
Attributable to owner of the Parent	45,253	42,289
Non-controlling interests	8,018	7,281
Total equity	53,271	49,570
Liabilities		
Non-current financial liabilities	43,987	47,637
Provisions for pensions	4,716	4,541
Deferred tax liabilities	7,884	7,090
Other non-current provisions	1,897	1,481
Other non-current liabilities	92	79
Total non-current liabilities	58,576	60,828
Current financial liabilities	15,690	7,201
Trade payables	15,658	14,748
Current tax liabilities	307	553
Current provisions	1,290	1,547
Other current liabilities	13,470	12,569
Total current liabilities	46,415	36,618
Total liabilities	104,991	97,446
Total equity and liabilities	158,262	147,016

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	June 30, 2018	December 31, 2017
Debt/equity ratio	1.09	1.06
Equity/assets ratio	29%	29%
Equity	53,271	49,570
Equity per share	76	71
Return on equity	18.5%	19.8%
Return on equity excluding items affecting comparability	19.1%	21.3%
Capital employed	111,147	102,037
- of which working capital	8,774	5,901
Return on capital employed*	12.6%	13.9%
Return on capital employed* excluding items affecting comparability	13.0%	14.9%
Net debt	57,876	52,467
Provisions for restructuring costs are included in the balance sheet as follows		
-Other provisions**	1,897	1,481
-Operating liabilities	570	548
**) of which, provision for tax risks	918	886
*) rolling 12 months		

NET SALES (business area reporting)

SEKm	1806	1706	2018:2	2018:1	2017:4	2017:3	2017:2	2017:1
Personal Care	22,231	19,306	11,446	10,785	10,831	10,449	10,851	8,455
Consumer Tissue	22,119	20,922	11,116	11,003	11,026	10,066	10,449	10,473
Professional Hygiene	13,386	13,249	7,168	6,218	6,816	6,635	6,866	6,383
Other	5	-54	-9	14	-9	28	-11	-43
Total net sales	57,741	53,423	29,721	28,020	28,664	27,178	28,155	25,268

ADJUSTED EBITA (business area reporting)

SEKm	1806	1706	2018:2	2018:1	2017:4	2017:3	2017:2	2017:1
Personal Care	3,137	2,842	1,605	1,532	1,539	1,556	1,614	1,228
Consumer Tissue	1,856	2,161	890	966	900	1,023	1,010	1,151
Professional Hygiene	1,786	1,637	1,014	772	1,344	1,023	917	720
Other	-311	-286	-160	-151	-164	-170	-104	-182
Total adjusted EBITA	6,468	6,354	3,349	3,119	3,619	3,432	3,437	2,917

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	1806	1706	2018:2	2018:1	2017:4	2017:3	2017:2	2017:1
Personal Care	2,806	2,658	1,434	1,372	1,369	1,404	1,434	1,224
Consumer Tissue	1,855	2,157	890	965	899	1,022	1,008	1,149
Professional Hygiene	1,769	1,607	1,005	764	1,335	1,014	902	705
Other	-312	-286	-161	-151	-165	-169	-104	-182
Total adjusted operating profit¹	6,118	6,136	3,168	2,950	3,438	3,271	3,240	2,896
Financial items	-589	-570	-299	-290	-337	-275	-304	-266
Profit before tax¹	5,529	5,566	2,869	2,660	3,101	2,996	2,936	2,630
Tax	-1,422	-1,420	-745	-677	-26	-745	-761	-659
Net profit for the period²	4,107	4,146	2,124	1,983	3,075	2,251	2,175	1,971
¹ Excluding items affecting comparability before tax amounting to:	-388	-885	-29	-359	-21	-34	-476	-409
² Excluding items affecting comparability after tax amounting to:	-250	-649	7	-257	-9	-29	-334	-315

ADJUSTED EBITA MARGIN (business area reporting)

%	1806	1706	2018:2	2018:1	2017:4	2017:3	2017:2	2017:1
Personal Care	14.1	14.7	14.0	14.2	14.2	14.9	14.9	14.5
Consumer Tissue	8.4	10.3	8.0	8.8	8.2	10.2	9.7	11.0
Professional Hygiene	13.3	12.4	14.1	12.4	19.7	15.4	13.4	11.3

STATEMENT OF PROFIT OR LOSS

SEKm	2018:2	2018:1	2017:4	2017:3	2017:2
Net sales	29,721	28,020	28,664	27,178	28,155
Cost of goods sold	-21,104	-19,964	-20,236	-18,949	-19,664
Items affecting comparability	-181	-554	35	28	-360
Gross profit	8,436	7,502	8,463	8,257	8,131
Sales, general and administration	-5,279	-4,964	-4,856	-4,835	-5,109
Items affecting comparability	152	195	-57	-64	-116
Share of profits of associates and joint ventures	11	27	47	38	55
EBITA	3,320	2,760	3,597	3,396	2,961
Amortization of acquisition-related intangible assets	-181	-169	-181	-161	-197
Items affecting comparability	0	0	1	2	0
Operating profit	3,139	2,591	3,417	3,237	2,764
Financial items	-299	-290	-337	-275	-304
Profit before tax	2,840	2,301	3,080	2,962	2,460
Taxes	-709	-575	-14	-740	-619
Net profit for the period	2,131	1,726	3,066	2,222	1,841

INCOME STATEMENT PARENT COMPANY

SEKm	1806	1706
Administrative expenses	-406	-522
Other operating income	14	192
Operating loss	-392	-330
Financial items	5,615	3,046
Loss before tax	5,223	2,716
Tax on profit for the period	96	159
Loss for the period	5,319	2,875

BALANCE SHEET PARENT COMPANY

SEKm	June 30, 2018	December 31, 2017
Intangible fixed assets	0	0
Tangible fixed assets	5	5
Financial fixed assets	169,079	169,146
Total fixed assets	169,084	169,151
Total current assets	1,672	48,934
Total assets	170,756	218,085
Restricted equity	2,350	2,350
Unrestricted equity	77,016	75,735
Total equity	79,366	78,085
Untaxed reserves	1	1
Provisions	887	881
Non-current liabilities	39,933	41,709
Current liabilities	50,569	97,409
Total equity, provisions and liabilities	170,756	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 15 Revenue from Contracts with Customers

The standard regulates revenue recognition and disclosure requirements relating to commercial agreements (contracts) 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. A project has been carried out that has examined the following areas: sales of services, variable and fixed discounts, inspection of agreements and when control has been transferred to the customer. In summary, the conclusion was drawn that the new standard will not have any material impact on the Essity Group's revenue recognition. Due to the non-material effects of the new standard, previous periods have not been restated.

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. A project has been carried out focusing on the following areas: classification, measurement and documentation of financial liabilities and assets, adaptation of documentation relating to hedge accounting to the new regulations and calculation of effects in connection with the transition to a new model for recognizing anticipated credit losses (expected loss model). The conclusion was drawn that the new standard will not have any material impact on the Essity Group's reporting. In the first quarter of 2018, Essity reported a non-recurring effect of SEK 7m after tax in equity due to a changed calculation model for expected credit losses on trade receivables. A non-current financial asset of SEK 87m was classified in the measurement category fair value through comprehensive income. Otherwise, no changes occurred in relation to measurement classification.

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 has commenced preparations for transition to the new standard on January 1, 2019, and intends to implement system support in order to comply with the new requirements. During the second quarter of 2018, system suppliers were selected and the project to implement system support commenced. Activities to train various parts of the organization in the new standard have been intensified as has the work to identify and evaluate the relevant leases. The initial assessment is 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	
						1	2
June 30, 2018							
Derivatives	1,178	387	791	-	-	-	1,178
Non-current financial assets	91	-	-	91	-	91	-
Total assets	1,269	387	791	91	-	91	1,178
Derivatives	832	797	35	-	-	-	832
Financial liabilities							
Current financial liabilities	14,860	-	-	-	14,860	-	-
Non-current financial liabilities	43,930	17,090	-	-	26,840	-	17,090
Total liabilities	59,622	17,887	35	-	41,700	-	17,922
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 59,680m (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	1806	1712
Total assets	158,262	147,016
-Financial receivables	-6,517	-6,912
-Non-current non-interest bearing liabilities	-9,873	-8,650
-Current non-interest bearing liabilities	-30,725	-29,417
Capital employed	111,147	102,037

SEKm	2018:2	2018:1	2017:4	2017:3	2017:2
Personal Care	42,888	42,033	39,447	38,219	39,363
Consumer Tissue	46,714	45,091	43,569	41,945	41,439
Professional Hygiene	22,008	20,445	20,034	19,274	20,272
Other	-463	-315	-1,013	-1,024	-671
Capital employed	111,147	107,254	102,037	98,414	100,403

Working capital

SEKm	1806	1712
Inventories	15,605	13,739
Accounts receivables	19,505	17,607
Other current receivables	3,186	2,549
Accounts payables	-15,658	-14,748
Other current liabilities	-13,470	-12,569
Adjustments	-394	-677
Working capital	8,774	5,901

Net debt

SEKm	1806	1712
Surplus in funded pension plans	1,953	1,148
Non-current financial assets	523	552
Current financial assets	307	1,105
Cash and cash equivalents	3,734	4,107
Financial receivables	6,517	6,912
Non-current financial liabilities	43,987	47,637
Provisions for pensions	4,716	4,541
Current financial liabilities	15,690	7,201
Financial liabilities	64,393	59,379
Net debt	57,876	52,467

EBITDA

SEKm	1806	1706	2018:2	2017:2
Operating profit	5,730	5,251	3,139	2,764
-Amortization of acquisition-related intangible assets	350	218	181	197
-Depreciations	2,637	2,560	1,349	1,313
-Items affecting comparability, depreciations	0	2	0	0
-Impairment	10	0	5	0
-Items affecting comparability, impairment	307	299	14	201
-Items affecting comparability, impairment of acquisition-related intangible assets	0	88	0	0
EBITDA	9,034	8,418	4,688	4,475
-Items affecting comparability excluding depreciation and impairment	81	496	15	275
Adjusted EBITDA	9,115	8,914	4,703	4,750

EBITA

SEKm	1806	1706	2018:2	2017:2
Operating profit	5,730	5,251	3,139	2,764
-Amortization of acquisition-related intangible assets	350	218	181	197
-Items affecting comparability amortization of acquisition-related intangible assets	0	88	0	0
-Operating profit before amortization of acquisition-related intangible assets/EBITA	6,080	5,557	3,320	2,961
EBITA margin (%)	10.5	10.4	11.2	10.5
-Items affecting comparability cost of goods sold	735	572	181	360
-Items affecting comparability, sales and administration costs	-347	225	-152	116
Adjusted EBITA	6,468	6,354	3,349	3,437
Adjusted EBITA margin (%)	11.2	11.9	11.3	12.2

Operating cash flow

SEKm	1806	1706	2018:2	2017:2
Personal Care				
Operating cash surplus	3,821	3,421	1,963	1,930
Change in working capital	-520	-546	115	-283
Current capital expenditures, net	-485	-365	-328	-191
Restructuring costs, etc.	-242	-196	-237	-205
Operating cash flow	2,574	2,314	1,513	1,251
Consumer Tissue				
Operating cash surplus	2,955	3,193	1,452	1,532
Change in working capital	-638	364	-472	287
Current capital expenditures, net	-873	-902	-474	-616
Restructuring costs, etc.	-61	-145	-49	62
Operating cash flow	1,383	2,510	457	1,265
Professional Hygiene				
Operating cash surplus	2,643	2,476	1,456	1,323
Change in working capital	-836	-608	-354	-516
Current capital expenditures, net	-416	-325	-244	-220
Restructuring costs, etc.	-65	-294	13	-186
Operating cash flow	1,326	1,249	871	401

Organic net sales*

SEKm	1806	2018:2
Personal Care		
Organic net sales	645	264
Currency effect ¹	142	221
Acquisition/Disposals	2,138	110
Reported change	2,925	595
Consumer Tissue		
Organic net sales	580	176
Currency effect ¹	552	433
Acquisition/Disposals	66	58
Reported change	1,198	667
Professional Hygiene		
Organic net sales	229	206
Currency effect ¹	-101	91
Acquisition/Disposals	9	5
Reported change	137	302
Essity		
Organic net sales	1,512	647
Currency effect ¹	593	746
Acquisition/Disposals	2,213	173
Reported change	4,318	1,566

¹Consists only of currency translation effects

*For a definition of "Organic net sales," refer to page 106 of Essity's 2017 Annual Report.