

# Half-year Report 2019

Essity Aktiebolag (publ)



# JANUARY 1 – JUNE 30, 2019

(compared with the corresponding period a year ago)

- Net sales increased 8.6% to SEK 62,724m (57,741)
- Organic net sales increased 4.1%
- Organic net sales increased 4.7%, excluding the lower sales of mother reels due to production closures
- In emerging markets, which accounted for 37% of net sales, organic net sales increased 9.6%
- Operating profit before amortization of acquisition-related intangible assets (EBITA) increased 5% to SEK 6,412m (6,080)
- Adjusted EBITA increased 7% to SEK 6,922m (6,468)
- Adjusted EBITA margin was 11.0% (11.2)
- Higher raw material and energy costs had a negative impact of SEK 1,300m on earnings
- Profit for the period increased 15% to SEK 4,430m (3,857)
- Earnings per share increased 15% to SEK 5.73 (4.98)
- Adjusted earnings per share increased 16% to SEK 6.60 (5.68)
- Cash flow from current operations increased to SEK 5,336m (1,855)

## EARNINGS TREND

SEKm	1906	1806	%	2019:2	2018:2	%
Net sales	62,724	57,741	9	32,068	29,721	8
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) <sup>1</sup>	6,922	6,468	7	3,732	3,349	11
Operating profit before amortization of acquisition-related intangible assets (EBITA)	6,412	6,080	5	3,410	3,320	3
Amortization of acquisition-related intangible assets	-380	-350		-193	-181	
Adjusted operating profit <sup>1</sup>	6,542	6,118	7	3,539	3,168	12
Items affecting comparability	-510	-388		-322	-29	
Operating profit	6,032	5,730	5	3,217	3,139	2
Financial items	-686	-589		-344	-299	
Profit before tax	5,346	5,141	4	2,873	2,840	1
Adjusted profit before tax <sup>1</sup>	5,856	5,529	6	3,195	2,869	11
Tax	-916	-1,284		-372	-709	
Profit for the period	4,430	3,857	15	2,501	2,131	17
Earnings per share, SEK	5.73	4.98		3.24	2.90	
Adjusted earnings per share, SEK <sup>2</sup>	6.60	5.68		3.74	3.07	

<sup>1</sup>Excluding items affecting comparability; for amounts see page 12.

<sup>2</sup>Excluding items affecting comparability and amortization of acquisition-related intangible assets.

## SUMMARY OF THE SECOND QUARTER OF 2019

During the quarter the Group continued to report strong organic net sales growth and the adjusted EBITA margin rose. The implemented price increases had a positive impact on both organic net sales growth and profitability.

Our investments in sales and marketing, primarily in Asia and Latin America, contributed to higher growth. In addition, we launched innovations that strengthened our customer and consumer offering and improved the product mix. For example, in China we re-launched Feminine Care with Libresse V-Comfort and invested in local production. In Incontinence Products, we strengthened our product offering in the healthcare sector with TENA ProSkin.

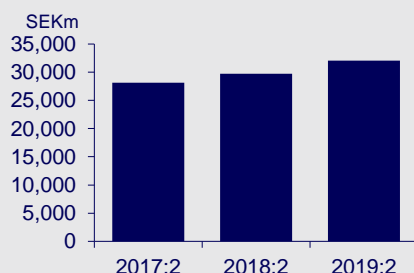
Efficiency efforts are according to plan and we have achieved significant cost savings. Our raw material and energy costs were higher during the quarter, although the market prices for such items as pulp are demonstrating a declining trend, albeit from a high level.

In terms of our ongoing activities to contribute to a sustainable and circular society, we have established additional sustainability targets for packaging with a special focus on plastic packaging. We have also decided to invest in sustainable alternative fiber technology for tissue production.

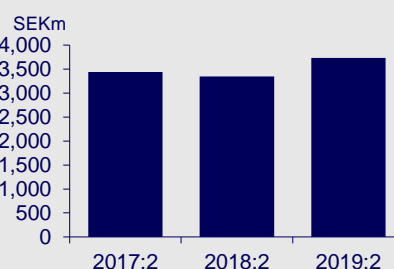
The Group's net sales increased 7.9% in the second quarter of 2019 compared with the corresponding period a year ago. Organic net sales, excluding the lower sales of mother reels, increased 4.3%. Including the lower sales of mother reels, organic net sales increased 3.9%, of which volume accounted for 2.0% and price/mix for 1.9%. Organic net sales were positively impacted by a better price/mix and higher volumes in all business areas. In emerging markets, which accounted for 36% of net sales, organic net sales increased 9.9%, while the increase in mature markets was 0.7%.

The Group's adjusted EBITA in the second quarter of 2019 increased 11% compared with the corresponding period a year ago. Earnings were positively impacted by higher prices and volumes as well as a better product mix and cost savings. Cost savings amounted to SEK 322m, of which SEK 147m was related to the Group-wide cost-savings program. The Group-wide cost-savings program is proceeding according to plan and at the end of the second quarter of 2019, the annual rate of savings was approximately SEK 690m. Higher raw material and energy costs had a negative impact of SEK -250m on earnings, which corresponds to a negative impact on the adjusted EBITA margin of -0.8 percentage points. Furthermore, stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to increase growth entail higher sales and marketing costs, although these costs were lower as a proportion of net sales. Higher distribution costs had a negative impact on earnings. The Group's adjusted EBITA margin increased 0.3 percentage points to 11.6%. The adjusted return on capital employed was 12.9%. Operating cash flow increased 105%, primarily related to operating cash surplus and changes in working capital. Earnings per share increased 12% to SEK 3.24.

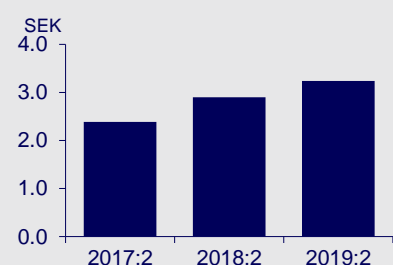
### Net sales



### Adjusted EBITA



### Earnings per share



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



**ADJUSTED EARNINGS TREND**

SEKm	1906	1806	%	2019:2	2018:2	%
<b>Net sales</b>	<b>62,724</b>	57,741	9	<b>32,068</b>	29,721	8
Cost of goods sold <sup>1</sup>	-45,086	-41,068		-22,779	-21,104	
<b>Adjusted gross profit<sup>1</sup></b>	<b>17,638</b>	16,673	6	<b>9,289</b>	8,617	8
Sales, general and administration <sup>1</sup>	-10,716	-10,205		-5,557	-5,268	
<b>Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)<sup>1</sup></b>	<b>6,922</b>	6,468	7	<b>3,732</b>	3,349	11
Amortization of acquisition-related intangible assets <sup>1</sup>	-380	-350		-193	-181	
<b>Adjusted operating profit<sup>1</sup></b>	<b>6,542</b>	6,118	7	<b>3,539</b>	3,168	12
Financial items	-686	-589		-344	-299	
<b>Adjusted profit before tax<sup>1</sup></b>	<b>5,856</b>	5,529	6	<b>3,195</b>	2,869	11
Adjusted tax <sup>1</sup>	-1,079	-1,422		-482	-745	
<b>Adjusted profit for the period<sup>1</sup></b>	<b>4,777</b>	4,107	16	<b>2,713</b>	2,124	28
<sup>1</sup> Excluding items affecting comparability; for amounts see page 12.						
<b>Adjusted margins (%)</b>						
Gross margin <sup>1</sup>	<b>28.1</b>	28.9		<b>29.0</b>	29.0	
EBITA margin <sup>1</sup>	<b>11.0</b>	11.2		<b>11.6</b>	11.3	
Operating margin <sup>1</sup>	<b>10.4</b>	10.6		<b>11.0</b>	10.7	
Financial net margin	-1.1	-1.0		-1.1	-1.0	
<b>Profit margin<sup>1</sup></b>	<b>9.3</b>	9.6		<b>9.9</b>	9.7	
Tax <sup>1</sup>	-1.7	-2.5		-1.5	-2.5	
<b>Net margin<sup>1</sup></b>	<b>7.6</b>	7.1		<b>8.4</b>	7.2	

<sup>1</sup> Excluding items affecting comparability; for amounts see page 12.**ADJUSTED EBITA BY BUSINESS AREA**

SEKm	1906	1806	%	2019:2	2018:2	%
Personal Care	3,251	3,137	4	1,711	1,605	7
Consumer Tissue	2,235	1,856	20	1,166	890	31
Professional Hygiene	1,767	1,786	-1	1,026	1,014	1
Other	-331	-311		-171	-160	
<b>Total<sup>1</sup></b>	<b>6,922</b>	6,468	7	<b>3,732</b>	3,349	11

<sup>1</sup> Excluding items affecting comparability; for amounts see page 12.**ADJUSTED OPERATING PROFIT BY BUSINESS AREA**

SEKm	1906	1806	%	2019:2	2018:2	%
Personal Care	2,893	2,806	3	1,529	1,434	7
Consumer Tissue	2,232	1,855	20	1,164	890	31
Professional Hygiene	1,748	1,769	-1	1,016	1,005	1
Other	-331	-312		-170	-161	
<b>Total<sup>1</sup></b>	<b>6,542</b>	6,118	7	<b>3,539</b>	3,168	12

<sup>1</sup> Excluding items affecting comparability; for amounts see page 12.**OPERATING CASH FLOW BY BUSINESS AREA**

SEKm	1906	1806	%	2019:2	2018:2	%
Personal Care	2,849	2,163	32	1,523	1,229	24
Consumer Tissue	2,027	759	167	1,374	120	1,045
Professional Hygiene	1,358	1,182	15	1,147	750	53
Other	-356	-336		-316	-279	
<b>Total</b>	<b>5,878</b>	3,768	56	<b>3,728</b>	1,820	105

## GROUP

### NET SALES AND EARNINGS

#### January–June 2019 compared with the corresponding period a year ago

Net sales increased 8.6% compared with the corresponding period a year ago to SEK 62,724m (57,741). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.1%, of which volume accounted for 1.5% and price/mix for 2.6%. Excluding lower sales of mother reels within Consumer Tissue, resulting from production closures within the scope of Tissue Roadmap, organic sales increased 4.7%. Organic net sales increased 1.2% in mature markets and increased 9.6% in emerging markets. Emerging markets accounted for 37% of net sales. Exchange rate effects increased net sales by 4.3%. Acquisitions in Latin America increased net sales by 0.2%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 7% (2% excluding currency translation effects and acquisitions) to SEK 6,922m (6,468). Higher prices, a better mix, higher volumes and cost savings had a positive impact on earnings. Cost savings amounted to SEK 616m, of which SEK 256m was related to the Group-wide cost-savings program. Higher raw material and energy costs had a negative earnings effect of SEK -1,300m, which corresponds to a negative impact on the adjusted EBITA margin of -2.1 percentage points. Furthermore, stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to increase growth entail higher sales and marketing costs, although these costs were lower as a proportion of net sales. Higher distribution costs had a negative impact on earnings. Acquisitions in Latin America increased earnings by 1%.

Items affecting comparability amounted to SEK -510m (-388) and include costs of approximately SEK -290m related to restructuring costs for the Group-wide cost-savings program. Other costs negatively impacted items affecting comparability by SEK -220m.

Financial items increased to SEK -686m (-589). 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 6% (1% excluding currency translation effects and acquisitions) and amounted to SEK 5,856m (5,529).

The tax expense, excluding effects of items affecting comparability, was SEK 1,079m (1,422).

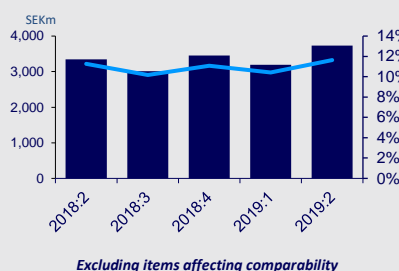
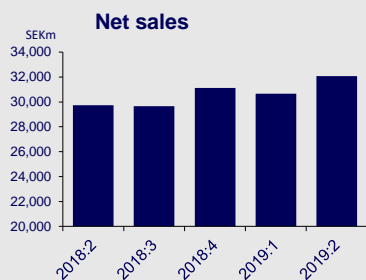
Adjusted profit for the period increased 16% (11% excluding currency translation effects and acquisitions) and amounted to SEK 4,777m (4,107).

Profit for the period increased 15% (10% excluding currency translation effects and acquisitions) to SEK 4,430m (3,857). Earnings per share were SEK 5.73 (4.98). The adjusted earnings per share were SEK 6.60 (5.68).

The adjusted return on capital employed was 11.9% (13.0). The adjusted return on equity was 18.5% (19.1).

#### Second quarter of 2019 compared with the corresponding period a year ago

Net sales increased 7.9% compared with the corresponding period a year ago to SEK 32,068m (29,721). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.9%, of which volume accounted for 2.0% and price/mix for 1.9%. Organic net sales was positively impacted by a better price/mix and higher volumes in all business areas. Excluding lower sales of mother reels within Consumer Tissue, resulting from production closures within the scope of Tissue Roadmap, organic net sales increased 4.3%. Organic net sales increased 0.7% in mature markets and increased 9.9% in emerging markets. Emerging markets accounted for 36% of net sales. Exchange rate effects increased net sales by 4.0%.

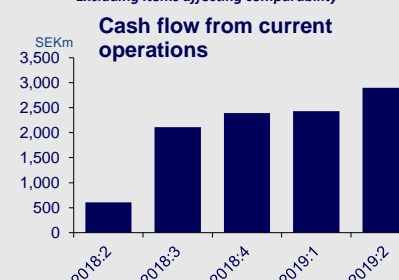
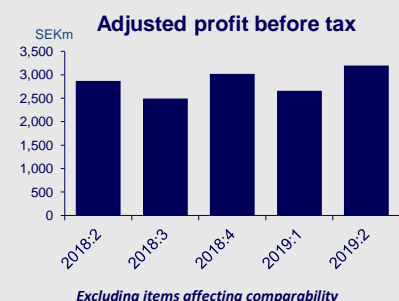


#### Change in net sales (%)

	1906 vs 1806	19:2 vs 18:2
<b>Total</b>	<b>8.6</b>	<b>7.9</b>
Price/mix	2.6	1.9
Volume	1.5	2.0
Currency	4.3	4.0
Acquisitions	0.2	0.0
Divestments	0.0	0.0

#### Change in adjusted EBITA (%)

	1906 vs 1806	19:2 vs 18:2
<b>Total</b>	<b>7</b>	<b>11</b>
Price/mix	22	16
Volume	7	9
Raw materials	-17	-5
Energy	-3	-3
Currency	4	5
Other	-6	-11



Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 11% (6% excluding currency translation effects) to SEK 3,732m (3,349). Earnings were positively impacted by higher prices and volumes and a better product mix and cost savings amounting to SEK 322m, of which SEK 147m was related to the Group-wide cost-savings program. Higher raw material and energy costs had a negative impact of SEK -250m on earnings, which corresponds to a negative impact on the adjusted EBITA margin of -0.8 percentage points. Furthermore, stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to increase growth entail higher sales and marketing costs, although these costs were lower as a proportion of net sales. Higher distribution costs had a negative impact on earnings.

Adjusted profit before tax increased 11% (6% excluding currency translation effects) and amounted to SEK 3,195m (2,869).

Profit for the period increased 17% (12% excluding currency translation effects) to SEK 2,501m (2,131). Earnings per share were SEK 3.24 (2.90). The adjusted earnings per share were SEK 3.74 (3.07).

The adjusted return on capital employed was 12.9% (12.3). The adjusted return on equity was 18.9% (15.9).

## CASH FLOW AND FINANCING

### January–June 2019 compared with the corresponding period a year ago

The operating cash surplus amounted to SEK 10,345m (9,154). The cash flow effect of changes in working capital was SEK -1,090m (-1,941). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -2,706m (-3,059). Operating cash flow before investments in operating assets through leases amounted to SEK 6,046m (3,768). Investments in operating assets through leases amounted to SEK -168m (0). Operating cash flow was SEK 5,878m (3,768).

Financial items increased to SEK -686m (-589). 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 positive impact on cash flow of SEK 137m (-1,408). 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 46m (-674). Net cash flow totaled SEK 1,125m (-3,068).

Net debt increased by SEK 5,287m compared with the same point in time last year and amounted to SEK 59,691m. 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 54,794m. Net cash flow reduced net debt by SEK 1,125m. 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 830m. Exchange rate movements increased net debt by SEK 1,585m. Investments in non-operating assets through leases increased net debt by SEK 211m.

The debt/equity ratio was 1.06 (1.09). Excluding pension liabilities, the debt/equity ratio was 0.97 (1.03). The debt payment capacity was 27% (25). Net debt in relation to adjusted EBITDA amounted to 3.06 (3.08).

## EQUITY

### January–June 2019

The Group's equity increased by SEK 1,572m during the period, to SEK 56,471m. Net profit for the period increased equity by SEK 4,430m. Dividends to shareholders of SEK 4,259m reduced equity. Equity decreased net after tax by SEK 612m 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 292m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 2,312m. Other items reduced equity by SEK 7m.

## **TAX**

### **January–June 2019**

A tax expense of SEK 1,079m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 18.4% for the period. The tax expense including items affecting comparability was SEK 916m, corresponding to a tax rate of 17.1% 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 DURING THE QUARTER**

### **Essity divests partly owned company in Turkey**

On May 21, 2019, Essity announced that it is divesting its 50% stake in the partly owned company SCA Yildiz in Turkey to the other part owner, Yildiz. SCA Yildiz is primarily active in Baby Care products. In 2018, the company reported net sales of SEK 364m (TRY 197m). The divestment is expected to give rise to a currency related loss of approximately SEK 150m, which will be recognized as an item affecting comparability in the third quarter of 2019. This will not impact cash flow or shareholders' equity. The transaction was finalized on July 12, 2019.

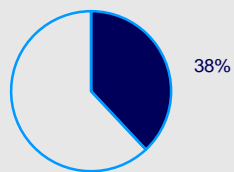
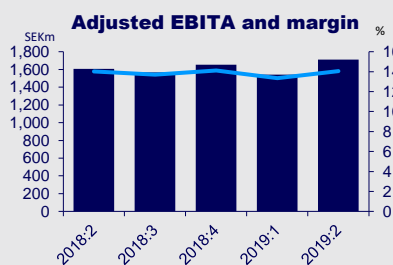
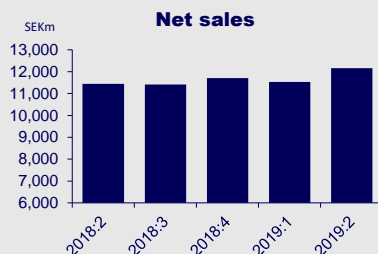
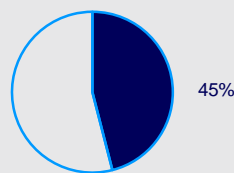
Essity will retain a presence in Turkey through its wholly owned Professional Hygiene, Incontinence Products and Medical Solutions operations.

### **Essity invests in sustainable alternative fiber technology**

On May 23, 2019, Essity announced that it is investing approximately SEK 400m in an integrated facility for the production of pulp based on alternative fiber from plant-based agricultural by-products. The investment is taking place at Essity's tissue plant in Mannheim, Germany. Production is expected to commence in the second half of 2020.

### **Essity sets additional sustainability targets for packaging**

On June 5, 2019, Essity announced that it has set additional packaging targets aimed at reducing its environmental footprint. One of the new targets states that 85% of the company's packaging is to be manufactured from renewable or recycled material by 2025. The new targets are part of Essity's commitment to the Ellen MacArthur Foundation's plastic initiative "A line in the sand".

Share of Group, net sales  
1906Share of Group, adjusted EBITA  
1906

Change in net sales (%)

	1906 vs 1806	19:2 vs 18:2
<b>Total</b>	<b>6.6</b>	<b>6.3</b>
Price/mix	1.4	0.9
Volume	1.9	2.2
Currency	3.1	3.3
Acquisitions	0.2	0.0
Divestments	0.0	-0.1

Change in adjusted EBITA (%)

	1906 vs 1806	19:2 vs 18:2
<b>Total</b>	<b>4</b>	<b>7</b>
Price/mix	8	4
Volume	8	10
Raw materials	-16	-13
Energy	-1	-1
Currency	3	4
Other	2	3

## PERSONAL CARE

SEKm	1906	1806	%	2019:2	2018:2	%
Net sales	23,699	22,231	7	12,164	11,446	6
Adjusted EBITA*	3,251	3,137	4	1,711	1,605	7
Adjusted EBITA margin, %*	13.7	14.1		14.1	14.0	
Adjusted operating profit*	2,893	2,806	3	1,529	1,434	7
Adjusted operating margin, %*	12.2	12.6		12.6	12.5	
Adjusted return on capital employed, %*	14.9	15.4		15.2	15.1	
Operating cash flow	2,849	2,163		1,523	1,229	

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

### January–June 2019 compared with the corresponding period a year ago

Net sales increased 6.6% to SEK 23,699m (22,231). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.3%, of which volume accounted for 1.9% and price/mix for 1.4%. Organic net sales in mature markets increased 1.5%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 6.7%. Acquisitions in Latin America increased net sales by 0.2%. Exchange rate effects increased net sales by 3.1%.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 4.6%. Growth was related to emerging markets, Western Europe and North America. In Medical Solutions, organic net sales increased 0.2%, mainly related to emerging markets and Western Europe. For Baby Care, organic net sales decreased 0.5%, mainly related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 9.0%, related primarily to Latin America.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 4% (on a level with the preceding year excluding currency translation effects and acquisitions) to SEK 3,251m (3,137). The increase was mainly related to a better price/mix, higher volumes and cost savings. Higher raw material and energy costs negatively impacted profits by SEK -540m, which corresponds to a negative impact on the adjusted EBITA margin of -2.3 percentage points. The significantly higher raw material costs were mainly related to pulp and oil-based raw materials. Higher distribution costs also negatively impacted earnings. Investments to increase growth entail higher marketing costs, although these were lower as a proportion of net sales. Acquisitions in Latin America increased profit by 1%.

The operating cash surplus amounted to SEK 4,261m (3,821).

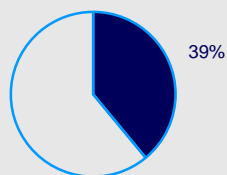
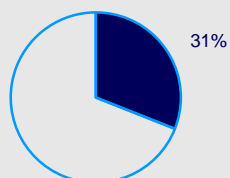
### Second quarter of 2019 compared with the corresponding period a year ago

Net sales increased 6.3% to SEK 12,164m (11,446). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.1%, of which volume accounted for 2.2% and price/mix for 0.9%. Organic net sales in mature markets increased 0.6%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 7.8%. Exchange rate effects increased net sales by 3.3%.

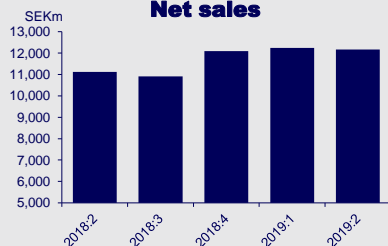
For Incontinence Products, with the globally leading TENA brand, organic net sales increased 5.5%. Growth was primarily related to Western Europe and emerging markets. In Medical Solutions, organic net sales declined 2.2%, mainly related to the US. For Baby Care, organic net sales increased 0.1%, mainly related to Latin America. For Feminine Care, organic net sales increased 8.5%. The increase was related to emerging markets and Western Europe.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 7% (2% excluding currency translation effects) to SEK 1,711m (1,605). The increase was mainly related to higher volumes, a better price/mix and cost savings. Higher raw material and energy costs negatively impacted profits by SEK -221m, 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. Higher distribution costs also negatively impacted earnings. Investments to increase growth entail higher marketing costs, although these were lower as a proportion of net sales.

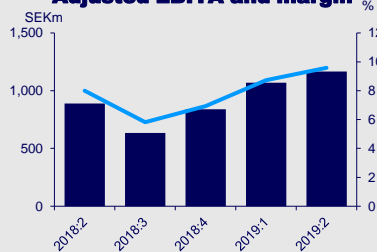


Share of Group, net sales  
1906Share of Group, adjusted EBITA  
1906

Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1906 vs 1806	19:2 vs 18:2
<b>Total</b>	<b>10.4</b>	<b>9.5</b>
Price/mix	4.2	3.0
Volume	1.6	2.7
Currency	4.4	3.8
Acquisitions	0.2	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1906 vs 1806	19:2 vs 18:2
<b>Total</b>	<b>20</b>	<b>31</b>
Price/mix	52	42
Volume	10	14
Raw materials	-24	0
Energy	-6	-6
Currency	6	6
Other	-18	-25

## CONSUMER TISSUE

SEKm	1906	1806	%	2019:2	2018:2	%
Net sales	24,415	22,119	10	12,167	11,116	9
Adjusted EBITA*	2,235	1,856	20	1,166	890	31
Adjusted EBITA margin, %*	9.2	8.4		9.6	8.0	
Adjusted operating profit*	2,232	1,855	20	1,164	890	31
Adjusted operating margin, %*	9.1	8.4		9.6	8.0	
Adjusted return on capital employed, %*	8.0	8.6		9.7	7.8	
Operating cash flow	2,027	759		1,374	120	

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

### January–June 2019 compared with the corresponding period a year ago

Net sales increased 10.4% to SEK 24,415m (22,119). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 5.8%, of which volumes was 1.6% and price/mix 4.2%. Excluding lower sales of mother reels resulting from production closures within the scope of Tissue Roadmap, organic net sales increased 6.9%. Organic net sales increased 1.2% in mature markets. In emerging markets, which accounted for 46% of net sales, organic net sales increased by 11.6%. Acquisitions in Latin America increased net sales by 0.2%. Exchange rate effects increased net sales by 4.4%.

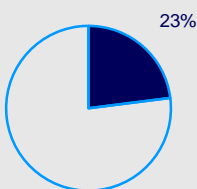
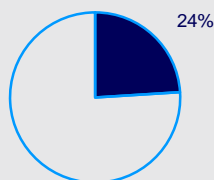
Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 20% (14% excluding currency translation effects and acquisitions) to SEK 2,235m (1,856). The increase was mainly due to higher prices, a better mix, higher volumes and cost savings. Higher raw material and energy costs negatively impacted earnings by SEK -561m, corresponding to a negative impact on the adjusted EBITA margin of -2.4 percentage points. The significantly higher raw material costs were mainly the result of higher pulp costs. Furthermore, stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to enhance growth increased sales and marketing costs. Acquisitions in Latin America increased profit by 1%.

The operating cash surplus totaled SEK 3,559m (2,955).

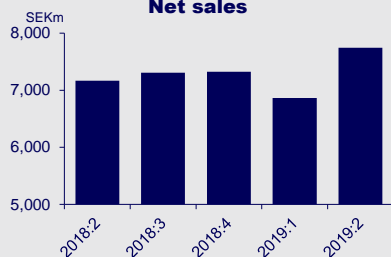
### Second quarter of 2019 compared with the corresponding period a year ago

Net sales increased 9.5% to SEK 12,167m (11,116). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 5.7%. Volumes increased by 2.7%, mainly related to Asia and Latin America. Price/mix increased 3.0%, primarily related to Europe and Latin America. Excluding lower sales of mother reels resulting from production closures within the scope of Tissue Roadmap, organic net sales increased 6.4%. Organic net sales increased 0.8% in mature markets. In emerging markets, which accounted for 46% of net sales, organic net sales increased by 11.9%. Exchange rate effects increased net sales by 3.8%.

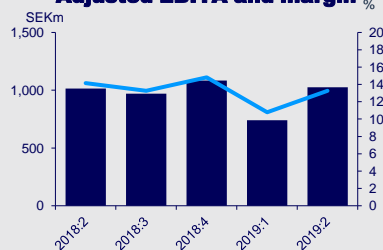
Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 31% (24% excluding currency translation effects) to SEK 1,166m (890). Higher prices and volumes, a better mix and cost savings had a positive impact on earnings. Stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to enhance growth entailed increased sales and marketing costs. Higher energy costs had a negative impact on earnings.

Share of Group, net sales  
1906Share of Group, adjusted EBITA  
1906

Net sales



Adjusted EBITA and margin %



Change in net sales (%)

	1906 vs 1806	19:2 vs 18:2
<b>Total</b>	<b>9.1</b>	<b>8.0</b>
Price/mix	2.1	1.6
Volume	0.9	0.5
Currency	6.1	5.9
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1906 vs 1806	19:2 vs 18:2
<b>Total</b>	<b>-1</b>	<b>1</b>
Price/mix	14	10
Volume	3	3
Raw materials	-8	3
Energy	-3	-2
Currency	4	5
Other	-11	-18

## PROFESSIONAL HYGIENE

SEKm	1906	1806	%	2019:2	2018:2	%
Net sales	14,609	13,386	9	7,742	7,168	8
Adjusted EBITA*	1,767	1,786	-1	1,026	1,014	1
Adjusted EBITA margin, %*	12.1	13.3		13.3	14.1	
Adjusted operating profit*	1,748	1,769	-1	1,016	1,005	1
Adjusted operating margin, %*	12.0	13.2		13.1	14.0	
Adjusted return on capital employed, %*	16.7	20.4		16.9	19.1	
Operating cash flow	1,358	1,182		1,147	750	

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

### January–June 2019 compared with the corresponding period a year ago

Net sales increased 9.1% to SEK 14,609m (13,386). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.0%, of which volumes accounted for 0.9% and price/mix for 2.1%. Organic net sales increased 0.9% in mature markets. In emerging markets, which accounted for 20% of net sales, organic net sales increased 11.4%. Exchange rate effects increased net sales by 6.1%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 1% (5% excluding currency translation effects) to SEK 1,767m (1,786). Earnings were positively impacted by higher prices, a better mix, higher volumes and cost savings. Higher raw material and energy costs had a negative impact on earnings of SEK -198m, which corresponds to a negative impact on the adjusted EBITA margin of -1.5 percentage points. Furthermore, stock revaluations, due to lower raw material prices, had a negative impact on earnings.

The operating cash surplus was SEK 2,786m (2,643).

### Second quarter of 2019 compared with the corresponding period a year ago

Net sales increased 8.0% to SEK 7,742m (7,168). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.1%. Volumes increased 0.5%, mainly related to Asia, Latin America and North America. Price/mix increased by 1.6%, mainly related to Europe and Latin America. Organic net sales increased 0.5% in mature markets. In emerging markets, which accounted for 20% of net sales, organic net sales increased 9.5%. Exchange rate effects increased net sales by 5.9%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 1% (declined 4% excluding currency translation effects) to SEK 1,026m (1,014). Earnings were positively impacted by higher prices and volumes, a better mix, 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 enhance growth entailed increased sales costs.

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 18, 2019

Essity Aktiebolag (publ)

Ewa Björling  
Board member

Pär Boman  
Chairman of the  
Board

Maija-Liisa Friman  
Board member

Annemarie Gardshol  
Board member

Magnus Groth  
President and CEO,  
Board member

Susanna Naumanen  
Board member,  
appointed by the  
employees

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, 2019, and the six-month period then ended. The Board of Directors and the President 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 18, 2019

Ernst & Young AB

Hamish Mabon  
Authorized Public Accountant

## DISTRIBUTION OF SHARES

June 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%. During the second quarter, 50 Class A shares were converted into Class B shares at the request of shareholders. The total number of votes in the company amounts to 1,277,754,267.

## FUTURE REPORTS

In 2019, an interim report will be published on October 25. The Year-end Report for 2019 will be published on January 22, 2020.

## INVITATION TO PRESENTATION OF HALF-YEAR REPORT FOR 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: Thursday, July 18, 2019

Time: 9:00 CET

Link to Web presentation: <https://essity.videosync.fi/2019-07-18-q2>

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 2674069.

### For further information, please contact:

Fredrik Rystedt, CFO and Executive Vice President, +46 (0) 8 788 51 31

Johan Karlsson, Vice President Investor Relations, Group Function Communications, +46 (0) 8 788 51 30

Joséphine Edwall Björklund, Senior Vice President, Group Function Communications, +46 (0) 8 788 52 34

Per Lorentz, Vice President Corporate Communications, Group Function Communications, +46 (0) 8 788 52 51

### NB:

---

This information is such that Essity Aktiebolag (publ) is obligated to make public pursuant to the EU Market Abuse Regulation and the Securities Market 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 07:00 CET on July 18, 2019. This interim report has been reviewed by the company's auditors.

---

Karl Stoltz, Media Relations Manager, +46 (0) 8 788 51 55



**CONDENSED STATEMENT OF PROFIT OR LOSS**

<b>SEKm</b>	<b>2019:2</b>	<b>2018:2</b>	<b>2019:1</b>	<b>1906</b>	<b>1806</b>
<b>Net sales</b>	<b>32,068</b>	29,721	30,656	<b>62,724</b>	57,741
Cost of goods sold <sup>1,2</sup>	-22,779	-21,104	-22,307	-45,086	-41,068
Items affecting comparability <sup>1</sup>	-156	-181	-99	-255	-735
<b>Gross profit</b>	<b>9,133</b>	8,436	8,250	<b>17,383</b>	15,938
Sales, general and administration <sup>1</sup>	-5,553	-5,279	-5,186	-10,739	-10,243
Items affecting comparability <sup>2</sup>	-166	152	-89	-255	347
Share of profits of associates and joint ventures	-4	11	27	23	38
<b>Operating profit before amortization of acquisition-related intangible assets</b>	<b>3,410</b>	3,320	3,002	<b>6,412</b>	6,080
Amortization of acquisition-related intangible assets <sup>1</sup>	-193	-181	-187	-380	-350
<b>Operating profit</b>	<b>3,217</b>	3,139	2,815	<b>6,032</b>	5,730
Financial items	-344	-299	-342	-686	-589
<b>Profit before tax</b>	<b>2,873</b>	2,840	2,473	<b>5,346</b>	5,141
Tax	-372	-709	-544	-916	-1,284
<b>Profit for the period</b>	<b>2,501</b>	2,131	1,929	<b>4,430</b>	3,857
<b>Earnings attributable to:</b>					
Owners of the parent	2,274	2,035	1,749	4,023	3,495
Non-controlling interests	227	96	180	407	362
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
<b>Earnings per share, SEK - owners of the parent</b>					
- before dilution effects	3.24	2.90	2.49	5.73	4.98
- after dilution effects	3.24	2.90	2.49	5.73	4.98
<sup>1</sup> Of which, depreciation	-1,865	-1,530	-1,808	-3,673	-2,987
<sup>2</sup> Of which, impairment	-55	-19	-11	-66	-317
<b>Gross margin</b>	<b>28.5</b>	28.4	26.9	<b>27.7</b>	27.6
<b>EBITA margin</b>	<b>10.6</b>	11.2	9.8	<b>10.2</b>	10.5
Operating margin	10.0	10.6	9.2	9.6	9.9
Financial net margin	-1.1	-1.0	-1.1	-1.1	-1.0
<b>Profit margin</b>	<b>8.9</b>	9.6	8.1	<b>8.5</b>	8.9
Tax	-1.2	-2.4	-1.8	-1.5	-2.2
<b>Net margin</b>	<b>7.7</b>	7.2	6.3	<b>7.0</b>	6.7
<b>Excluding items affecting comparability:</b>					
<b>Gross margin</b>	<b>29.0</b>	29.0	27.2	<b>28.1</b>	28.9
<b>EBITA margin</b>	<b>11.6</b>	11.3	10.4	<b>11.0</b>	11.2
Operating margin	11.0	10.7	9.8	10.4	10.6
Financial net margin	-1.1	-1.0	-1.1	-1.1	-1.0
<b>Profit margin</b>	<b>9.9</b>	9.7	8.7	<b>9.3</b>	9.6
Tax	-1.5	-2.5	-1.9	-1.7	-2.5
<b>Net margin</b>	<b>8.4</b>	7.2	6.8	<b>7.6</b>	7.1

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

SEKm	2019:2	2018:2	2019:1	1906	1806
<b>Profit for the period</b>	<b>2,501</b>	2,131	1,929	<b>4,430</b>	3,857
<b>Other comprehensive income for the period</b>					
<b>Items that may not be reclassified to the income statement</b>					
Actuarial gains/losses on defined benefit pension plans	-492	561	-343	-835	563
Measured at fair value through other comprehensive income	2	0	3	5	-1
Income tax attributable to components of other comprehensive income	121	-172	101	222	-179
	-369	389	-239	-608	383
<b>Items that have been or may be reclassified subsequently to the income statement</b>					
Cash flow hedges	-49	221	-355	-404	161
Translation differences in foreign operations	176	635	2,311	2,487	4,139
Gains/losses from hedges of net investments in foreign operations	4	416	-215	-211	-709
Other comprehensive income from associated companies	1	-5	-11	-10	9
Income tax attributable to components of other comprehensive income	8	-146	130	138	118
	140	1,121	1,860	2,000	3,718
<b>Other comprehensive income for the period, net of tax</b>	<b>-229</b>	1,510	1,621	<b>1,392</b>	4,101
<b>Total comprehensive income for the period</b>	<b>2,272</b>	3,641	3,550	<b>5,822</b>	7,958
<b>Total comprehensive income attributable to:</b>					
Owners of the parent	2,050	3,399	3,056	5,106	7,008
Non-controlling interests	222	242	494	716	950

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	1906	1806
<b>Attributable to owners of the parent</b>		
Opening balance, January 1	47,141	42,289
Effect attributable to change accounting standard IFRS 9	0	-9
Tax effect attributable to change accounting standard IFRS 9	0	2
Total comprehensive income for the period	5,106	7,008
Dividend	-4,038	-4,038
Private placement to non-controlling interest	1	2
Transferred to cost of hedged investment	7	-1
<b>Closing balance</b>	<b>48,217</b>	45,253
<b>Non-controlling interests</b>		
Opening balance, January 1	7,758	7,281
Total comprehensive income for the period	716	950
Dividend	-221	-214
Private placement to non-controlling interest	1	1
<b>Closing balance</b>	<b>8,254</b>	8,018
<b>Total equity, closing balance</b>	<b>56,471</b>	53,271

## CONSOLIDATED OPERATING CASH FLOW STATEMENT

SEKm	1906	1806	1812
Operating cash surplus	10,345	9,154	18,570
Change in working capital	-1,090	-1,941	-971
Capital expenditures non current assets, net	-2,706	-3,059	-6,781
Restructuring costs, etc.	-503	-386	-918
<b>Operating cash flow before Investments in operating assets through leases</b>	<b>6,046</b>	<b>3,768</b>	<b>9,900</b>
Investments in operating assets through leases	-168	0	0
<b>Operating cash flow</b>	<b>5,878</b>	<b>3,768</b>	<b>9,900</b>
Financial items	-686	-589	-1,157
Income taxes paid	137	-1,408	-2,466
Other	7	84	86
<b>Cash flow from current operations</b>	<b>5,336</b>	<b>1,855</b>	<b>6,363</b>
Acquisitions	-10	-675	-694
Divestments	56	1	68
<b>Cash flow before dividend</b>	<b>5,382</b>	<b>1,181</b>	<b>5,737</b>
Private placement to non-controlling interest	2	3	5
Dividend to non-controlling interests	-221	-214	-397
Dividend	-4,038	-4,038	-4,038
<b>Net cash flow</b>	<b>1,125</b>	<b>-3,068</b>	<b>1,307</b>
<b>Net debt at the start of the period</b>	<b>-54,404</b>	<b>-52,467</b>	<b>-52,467</b>
Changed opening balance for net debt due to IFRS 16 Leases	-3,786	0	0
Net cash flow	1,125	-3,068	1,307
Remeasurement to equity	-830	562	-1,042
Investments in non-operating assets through leases	-211	0	0
Translation differences	-1,585	-2,903	-2,202
<b>Net debt at the end of the period</b>	<b>-59,691</b>	<b>-57,876</b>	<b>-54,404</b>
<b>Debt/equity ratio</b>	<b>1.06</b>	<b>1.09</b>	<b>0.99</b>
<b>Debt payment capacity, %</b>	<b>27</b>	<b>25</b>	<b>25</b>
<b>Net debt / EBITDA</b>	<b>3.28</b>	<b>3.11</b>	<b>3.11</b>
<b>Net debt / Adjusted EBITDA</b>	<b>3.06</b>	<b>3.08</b>	<b>2.96</b>

### 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 has entailed a decrease in operating cash flow and cash flow from current operations of SEK -1,178m for the second quarter 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 half-year and full-year 2018 have been restated**

<b>SEKm</b>	<b>1906</b>	<b>1806</b>	<b>1812</b>
<b>Operating activities</b>			
Operating profit	6,032	5,730	10,759
Adjustment for non-cash items <sup>1</sup>	4,181	3,384	7,562
Interest paid	-607	-523	-820
Interest received	50	45	84
Other financial items	-232	-198	-405
Change in liabilities relating to restructuring programs, etc.	-363	-263	-583
Paid tax	137	-1,408	-2,466
<b>Cash flow from operating activities before changes in working capital</b>	<b>9,198</b>	<b>6,767</b>	<b>14,131</b>
<b>Cash flow from changes in working capital</b>			
Change in inventories	-437	-958	-1,017
Change in operating receivables	-883	-1,237	-344
Change in operating liabilities	230	254	390
<b>Cash flow from operating activities</b>	<b>8,108</b>	<b>4,826</b>	<b>13,160</b>
<b>Investing activities</b>			
Company acquisitions	-10	-449	-461
Divestments	10	1	68
Investments in property, plant and equipment and intangible assets	-2,771	-3,104	-6,906
Sale of property, plant and equipment	65	54	134
Loans granted to external parties	-135	0	0
Repayment of loans from external parties	0	250	178
<b>Cash flow from investing activities</b>	<b>-2,841</b>	<b>-3,248</b>	<b>-6,987</b>
<b>Financing activities</b>			
Private placement to non-controlling interests	2	3	5
Dividend	-4,038	-4,038	-4,038
Loans raised	1,151	3,699	4,386
Amortization of debt	-1,701	-1,544	-7,295
Dividend to non-controlling interests	-221	-214	-397
<b>Cash flow from financing activities</b>	<b>-4,807</b>	<b>-2,094</b>	<b>-7,339</b>
<b>Cash flow for the period</b>	<b>460</b>	<b>-516</b>	<b>-1,166</b>
Cash and cash equivalents at the beginning of the period	3,008	4,107	4,107
Exchange -differences in cash and cash equivalents	134	143	67
<b>Cash and cash equivalents at the end of the period</b>	<b>3,602</b>	<b>3,734</b>	<b>3,008</b>
Cash flow from operating activities per share, SEK	11.54	6.87	18.74



**CONSOLIDATED CASH FLOW STATEMENT (cont.)**

SEKm	1906	1806	1812
<b>Reconciliation with consolidated operating cash flow statement</b>			
<b>Cash flow for the period</b>	<b>460</b>	<b>-516</b>	<b>-1,166</b>
Amortization of debt	1,701	1,544	7,295
Loans raised	-1,151	-3,699	-4,386
Loans granted to external parties	135	0	0
Repayment of loans from external parties	0	-250	-178
Investment through financial lease	-168	-9	-8
Net debt in acquired and divested operations	46	-226	-234
Accrued interest	102	88	-16
<b>Net cash flow according to consolidated operating cash flow statement</b>	<b>1,125</b>	<b>-3,068</b>	<b>1,307</b>
<sup>1)</sup> <i>Adjustment for non-cash items</i>			
<i>Depreciation/amortization and impairment of non-current assets</i>	3,739	3,303	6,709
<i>Gain/loss on asset sales and swaps</i>	5	-3	35
<i>Change, provision related to antitrust cases</i>	0	95	95
<i>Gain/loss on divestments</i>	-10	-1	-69
<i>Unpaid relating to efficiency program</i>	249	264	669
<i>Change, one-time foreign tax on non-current assets</i>	0	-256	-288
<i>Share of profits of associated companies, items affecting comparability (Asaleo Care Ltd)</i>	0	0	278
<i>Revaluation effect of previously owned holding upon acquisition</i>	0	-225	-225
<i>Other</i>	198	207	358
<i>Total</i>	<i>4,181</i>	<i>3,384</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 comparative periods – the first half-year 2018 and full-year 2018 – were restated, which is why cash flow from investing activities was changed by SEK +398m and cash flow from financing activities was changed by SEK -398m compared with the figures presented in the interim report for the second 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**

<b>SEKm</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>Assets</b>		
Goodwill	34,654	33,553
Other intangible assets	21,788	21,475
Buildings, land, machinery and equipment	57,128	51,673
Participation in joint ventures and associates	807	777
Shares and participation	29	29
Surplus in funded pension plans	2,021	1,117
Non-current financial assets	670	634
Deferred tax assets	2,417	2,158
Other non-current assets	685	705
<b>Total non-current assets</b>	<b>120,199</b>	<b>112,121</b>
Inventories	16,165	15,234
Trade receivables	20,302	18,687
Current tax assets	783	2,126
Other current receivables	2,624	2,599
Current financial assets	824	422
Non-current assets held for sale	42	69
Cash and cash equivalents	3,602	3,008
<b>Total current assets</b>	<b>44,342</b>	<b>42,145</b>
<b>Total assets</b>	<b>164,541</b>	<b>154,266</b>
<b>Equity</b>		
Share capital	2,350	2,350
Reserves	6,711	5,003
Retained earnings	39,156	39,788
<b>Attributable to owner of the Parent</b>	<b>48,217</b>	<b>47,141</b>
Non-controlling interests	8,254	7,758
<b>Total equity</b>	<b>56,471</b>	<b>54,899</b>
<b>Liabilities</b>		
Non-current financial liabilities	44,500	43,500
Provisions for pensions	6,918	5,258
Deferred tax liabilities	6,900	7,272
Other non-current provisions	707	1,694
Other non-current liabilities	99	71
<b>Total non-current liabilities</b>	<b>59,124</b>	<b>57,795</b>
Current financial liabilities	15,390	10,827
Trade payables	16,559	15,911
Current tax liabilities	1,353	570
Current provisions	1,245	1,472
Other current liabilities	14,399	12,792
<b>Total current liabilities</b>	<b>48,946</b>	<b>41,572</b>
<b>Total liabilities</b>	<b>108,070</b>	<b>99,367</b>
<b>Total equity and liabilities</b>	<b>164,541</b>	<b>154,266</b>

**CONSOLIDATED BALANCE SHEET (cont.)**

SEKm	June 30, 2019	December 31, 2018
Debt/equity ratio	1.06	0.99
Equity/assets ratio	29%	31%
Equity	56,471	54,899
Equity per share	80	78
Return on equity	16.5%	16.1%
Return on equity excluding items affecting comparability	18.5%	18.0%
Capital employed	116,162	109,303
- of which working capital	8,171	7,568
Return on capital employed*	10.6%	10.8%
Return on capital employed* excluding items affecting comparability	11.9%	12.0%
Net debt	59,691	54,404
Provisions for restructuring costs are included in the balance sheet as follows		
-Other non-current provisions	707	1,694
-Other current provisions	879	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	1906	1806	2019:2	2019:1	2018:4	2018:3	2018:2	2018:1
Personal Care	23,699	22,231	12,164	11,535	11,703	11,408	11,446	10,785
Consumer Tissue	24,415	22,119	12,167	12,248	12,094	10,912	11,116	11,003
Professional Hygiene	14,609	13,386	7,742	6,867	7,322	7,309	7,168	6,218
Other	1	5	-5	6	-7	18	-9	14
<b>Total net sales</b>	<b>62,724</b>	<b>57,741</b>	<b>32,068</b>	<b>30,656</b>	<b>31,112</b>	<b>29,647</b>	<b>29,721</b>	<b>28,020</b>

**ADJUSTED EBITA (business area reporting)**

SEKm	1906	1806	2019:2	2019:1	2018:4	2018:3	2018:2	2018:1
Personal Care	3,251	3,137	1,711	1,540	1,652	1,565	1,605	1,532
Consumer Tissue	2,235	1,856	1,166	1,069	840	635	890	966
Professional Hygiene	1,767	1,786	1,026	741	1,085	970	1,014	772
Other	-331	-311	-171	-160	-126	-154	-160	-151
<b>Total adjusted EBITA</b>	<b>6,922</b>	<b>6,468</b>	<b>3,732</b>	<b>3,190</b>	<b>3,451</b>	<b>3,016</b>	<b>3,349</b>	<b>3,119</b>

**ADJUSTED OPERATING PROFIT (business area reporting)**

SEKm	1906	1806	2019:2	2019:1	2018:4	2018:3	2018:2	2018:1
Personal Care	2,893	2,806	1,529	1,364	1,470	1,387	1,434	1,372
Consumer Tissue	2,232	1,855	1,164	1,068	836	635	890	965
Professional Hygiene	1,748	1,769	1,016	732	1,076	960	1,005	764
Other	-331	-312	-170	-161	-126	-153	-161	-151
<b>Total adjusted operating profit<sup>1</sup></b>	<b>6,542</b>	<b>6,118</b>	<b>3,539</b>	<b>3,003</b>	<b>3,256</b>	<b>2,829</b>	<b>3,168</b>	<b>2,950</b>
Financial items	-686	-589	-344	-342	-236	-332	-299	-290
<b>Profit before tax<sup>1</sup></b>	<b>5,856</b>	<b>5,529</b>	<b>3,195</b>	<b>2,661</b>	<b>3,020</b>	<b>2,497</b>	<b>2,869</b>	<b>2,660</b>
Tax	-1,079	-1,422	-482	-597	602	-670	-745	-677
<b>Net profit for the period<sup>2</sup></b>	<b>4,777</b>	<b>4,107</b>	<b>2,713</b>	<b>2,064</b>	<b>3,622</b>	<b>1,827</b>	<b>2,124</b>	<b>1,983</b>
<sup>1</sup> Excluding items affecting comparability before tax amounting to:	-510	-388	-322	-188	-40	-1,016	-29	-359
<sup>2</sup> Excluding items affecting comparability after tax amounting to:	-347	-250	-212	-135	-5	-749	7	-257

**ADJUSTED EBITA MARGIN (business area reporting)**

%	1906	1806	2019:2	2019:1	2018:4	2018:3	2018:2	2018:1
Personal Care	13.7	14.1	14.1	13.4	14.1	13.7	14.0	14.2
Consumer Tissue	9.2	8.4	9.6	8.7	6.9	5.8	8.0	8.8
Professional Hygiene	12.1	13.3	13.3	10.8	14.8	13.3	14.1	12.4

**STATEMENT OF PROFIT OR LOSS**

SEKm	2019:2	2019:1	2018:4	2018:3	2018:2
<b>Net sales</b>	<b>32,068</b>	<b>30,656</b>	<b>31,112</b>	<b>29,647</b>	<b>29,721</b>
Cost of goods sold	-22,779	-22,307	-22,574	-21,416	-21,104
Items affecting comparability	-156	-99	71	-773	-181
<b>Gross profit</b>	<b>9,133</b>	<b>8,250</b>	<b>8,609</b>	<b>7,458</b>	<b>8,436</b>
Sales, general and administration	-5,553	-5,186	-5,106	-5,221	-5,279
Items affecting comparability	-166	-89	-47	-238	152
Share of profits of associates and joint ventures	-4	27	19	6	11
<b>EBITA</b>	<b>3,410</b>	<b>3,002</b>	<b>3,475</b>	<b>2,005</b>	<b>3,320</b>
Amortization of acquisition-related intangible assets	-193	-187	-195	-187	-181
Items affecting comparability	0	0	-64	-5	0
<b>Operating profit</b>	<b>3,217</b>	<b>2,815</b>	<b>3,216</b>	<b>1,813</b>	<b>3,139</b>
Financial items	-344	-342	-236	-332	-299
<b>Profit before tax</b>	<b>2,873</b>	<b>2,473</b>	<b>2,980</b>	<b>1,481</b>	<b>2,840</b>
Taxes	-372	-544	637	-403	-709
<b>Net profit for the period</b>	<b>2,501</b>	<b>1,929</b>	<b>3,617</b>	<b>1,078</b>	<b>2,131</b>



**INCOME STATEMENT PARENT COMPANY**

SEKm	1906	1806
Administrative expenses	-327	-406
Other operating income	10	14
<b>Operating loss</b>	<b>-317</b>	<b>-392</b>
Financial items	3,726	5,615
<b>Profit before tax</b>	<b>3,409</b>	<b>5,223</b>
Tax on profit for the period	133	96
<b>Profit for the period</b>	<b>3,542</b>	<b>5,319</b>

**BALANCE SHEET PARENT COMPANY**

SEKm	June 30, 2019	December 31, 2018
Intangible fixed assets	0	0
Tangible fixed assets	4	5
Financial fixed assets	176,306	175,447
<b>Total fixed assets</b>	<b>176,310</b>	<b>175,452</b>
<b>Total current assets</b>	<b>408</b>	<b>3,041</b>
<b>Total assets</b>	<b>176,718</b>	<b>178,493</b>
Restricted equity	2,350	2,350
Unrestricted equity	87,362	87,859
<b>Total equity</b>	<b>89,712</b>	<b>90,209</b>
Untaxed reserves	1	1
Provisions	882	879
Non-current liabilities	36,948	39,226
Current liabilities	49,175	48,178
<b>Total equity, provisions and liabilities</b>	<b>176,718</b>	<b>178,493</b>

# 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 and 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
<b>Adjusted opening balance</b>	<b>3,357</b>	<b>410</b>	<b>14</b>	<b>3,781</b>	<b>3,786</b>
Additional rights of use, net	319	60	0	379	379
Leases, divestments	-46	-	-	-46	-46
Depreciation	-323	-111	-2	-436	-
Interest expenses	-	-	-	-	53
Payments	-	-	-	-	-469
Translation differences	96	2	0	98	103
Value at end of period	3,403	361	12	3,776	3,806

Lease liabilities consist of:

Short-term component	858
Long-term component	2,948

During the period, SEK 125m 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
<b>Lease liability, January 1, 2019, according to AR 2018</b>	<b>3,684</b>
Adjustment of lease liability, January 1, 2019	102
<b>Adjusted lease liability, January 1, 2019</b>	<b>3,786</b>

### 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 is 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 to 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	Measured at fair value through OCI	Financial liabilities measured at amortized cost	Of which fair value by level <sup>1</sup>	
						1	2
<b>June 30, 2019</b>							
Derivatives	1,257	531	726	-	-	-	1,257
Non-current financial assets	95	-	-	95	-	95	-
<b>Total assets</b>	<b>1,352</b>	<b>531</b>	<b>726</b>	<b>95</b>	<b>0</b>	<b>95</b>	<b>1,257</b>
Derivatives	831	633	198	-	-	-	831
Financial liabilities							
Current financial liabilities	14,764	4,240	-		10,524	-	4,240
Non-current financial liabilities	44,411	12,305	-	-	32,106	-	12,305
<b>Total liabilities</b>	<b>60,006</b>	<b>17,178</b>	<b>198</b>	<b>-</b>	<b>42,630</b>	<b>-</b>	<b>17,376</b>
<b>December 31, 2018</b>							
Derivatives	1,255	294	961	-	-	-	1,255
Non-current financial assets	87	-	-	87	-	87	-
<b>Total assets</b>	<b>1,342</b>	<b>294</b>	<b>961</b>	<b>87</b>	<b>0</b>	<b>87</b>	<b>1,255</b>
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
<b>Total liabilities</b>	<b>54,185</b>	<b>17,387</b>	<b>44</b>	<b>-</b>	<b>36,754</b>	<b>-</b>	<b>17,431</b>

<sup>1</sup> No financial instruments have been classified to level 3

The total fair value of the above financial liabilities, excluding lease liabilities, is SEK 57,123m (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	1906	1812
Total assets	164,541	154,266
-Financial receivables	-7,117	-5,181
-Non-current non-interest bearing liabilities	-7,706	-9,037
-Current non-interest bearing liabilities	-33,556	-30,745
Capital employed	116,162	109,303

SEKm	2019:2	2019:1	2018:4	2018:3	2018:2
Personal Care	45,272	45,033	41,768	41,885	42,888
Consumer Tissue	47,821	48,380	44,915	45,474	46,714
Professional Hygiene	24,245	24,403	22,153	21,291	22,008
Other	-1,176	-1,642	467	-517	-463
Capital employed	116,162	116,174	109,303	108,133	111,147

**Working capital**

SEKm	1906	1812
Inventories	16,165	15,234
Accounts receivables	20,302	18,687
Other current receivables	2,624	2,599
Accounts payables	-16,559	-15,911
Other current liabilities	-14,399	-12,792
Adjustments	38	-249
Working capital	8,171	7,568

**Net debt**

SEKm	1906	1812
Surplus in funded pension plans	2,021	1,117
Non-current financial assets	670	634
Current financial assets	824	422
Cash and cash equivalents	3,602	3,008
Financial receivables	7,117	5,181
Non-current financial liabilities	44,500	43,500
Provisions for pensions	6,918	5,258
Current financial liabilities	15,390	10,827
Financial liabilities	66,808	59,585
Net debt	59,691	54,404



**EBITDA**

SEKm	1906	1806	2019:2	2018:2
Operating profit	6,032	5,730	3,217	3,139
-Amortization of acquisition-related intangible assets	380	350	193	181
-Depreciations	2,857	2,637	1,449	1,349
-Depreciations Right-of-use asset	436	0	223	0
-Items affecting comparability, depreciations	3	10	3	5
-Impairment	63	307	52	14
EBITDA	9,771	9,034	5,137	4,688
-Items affecting comparability excluding depreciation and impairment	447	81	270	15
Adjusted EBITDA	10,218	9,115	5,407	4,703

**EBITA**

SEKm	1906	1806	2019:2	2018:2
Operating profit	6,032	5,730	3,217	3,139
-Amortization of acquisition-related intangible assets	380	350	193	181
-Operating profit before amortization of acquisition-related intangible assets/EBITA	6,412	6,080	3,410	3,320
EBITA margin (%)	10.2	10.5	10.6	11.2
-Items affecting comparability cost of goods sold	255	735	156	181
-Items affecting comparability, sales and administration costs	255	-347	166	-152
Adjusted EBITA	6,922	6,468	3,732	3,349
Adjusted EBITA margin (%)	11.0	11.2	11.6	11.3

**Operating cash flow**

SEKm	1906	1806	2019:2	2018:2
<b>Personal Care</b>				
Operating cash surplus	4,261	3,821	2,227	1,963
Change in working capital	-174	-520	-111	115
Capital expenditures non-current assets, net	-949	-896	-459	-612
Restructuring costs, etc.	-152	-242	-102	-237
Operating cash flow before investments in operating assets through leases	2,986	2,163	1,555	1,229
Investment in operating assets through leases	-137	0	-32	0
Operating cash flow	2,849	2,163	1,523	1,229
<b>Consumer Tissue</b>				
Operating cash surplus	3,559	2,955	1,851	1,452
Change in working capital	-343	-638	-26	-472
Capital expenditures non-current assets, net	-1,083	-1,497	-434	-811
Restructuring costs, etc.	-75	-61	-2	-49
Operating cash flow before investments in operating assets through leases	2,058	759	1,389	120
Investment in operating assets through leases	-31	0	-15	0
Operating cash flow	2,027	759	1,374	120
<b>Professional Hygiene</b>				
Operating cash surplus	2,786	2,643	1,547	1,456
Change in working capital	-526	-836	158	-354
Capital expenditures non-current assets, net	-599	-560	-389	-365
Restructuring costs, etc.	-295	-65	-173	13
Operating cash flow before investments in operating assets through leases	1,366	1,182	1,143	750
Investment in operating assets through leases	-8	0	4	0
Operating cash flow	1,358	1,182	1,147	750

## Organic net sales

SEKm	1906	2019:2
Personal Care		
Organic net sales	725	359
Currency effect <sup>1</sup>	716	368
Acquisition/Disposals	27	-10
Reported change	1,468	717
Consumer Tissue		
Organic net sales	1,268	637
Currency effect <sup>1</sup>	976	413
Acquisition/Disposals	52	0
Reported change	2,296	1,050
Professional Hygiene		
Organic net sales	409	154
Currency effect <sup>1</sup>	812	420
Acquisition/Disposals	1	0
Reported change	1,222	574
Essity		
Organic net sales	2,398	1,155
Currency effect <sup>1</sup>	2,504	1,202
Acquisition/Disposals	80	-10
Reported change	4,982	2,347

<sup>1</sup>Consists only of currency translation effects