Year-end Report 2018

Essity Aktiebolag (publ)

TORK TENA Libero Tempo Leukoplast JOBST Libresse Saba Nosotras lotus Vinda 维达 Zewa

essity

JANUARY 1 – DECEMBER 31, 2018

(compared with the corresponding period a year ago)

- Net sales increased 8.5% to SEK 118,500m (109,265)
- Organic net sales increased 2.6%
- Organic net sales increased 3.1%, excluding the lower sales of mother reels due to production closures
- Operating profit before amortization of acquisition-related intangible assets (EBITA) declined 8% to SEK 11,560m (12,550)
- Adjusted EBITA amounted to SEK 12,935m (13,405)
- Adjusted EBITA margin was 10.9 percent (12.3)
- Higher raw material and energy costs had a negative impact of SEK 4,705m on earnings
- Profit for the period decreased 3% to SEK 8,552m (8,785)
- Earnings per share amounted to SEK 11.23 (11.56)
- Adjusted earnings per share increased 2% to SEK 13.32 (13.09)
- Cash flow from current operations totaled SEK 8,787m (8,745)
- The Board of Directors proposes a dividend of SEK 5.75 (5.75) per share
- A Group-wide cost-savings program was launched. The expected annual cost savings amount to approximately SEK 900m, with full effect at the end of 2019.
- A decision in a tax case in Sweden reduced the reported tax expense by about SEK 1.1bn

EARNINGS TREND

SEKm	1812	1712	%	2018:4	2017:4	%
Net sales	118,500	109,265	8	31,112	28,664	9
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	12,935	13,405	-4	3,451	3,619	-5
Operating profit before amortization of acquisition-related intangible assets (EBITA)	11,560	12,550	-8	3,475	3,597	-3
Amortization of acquisition-related intangible assets	-732	-560		-195	-181	
Adjusted operating profit[1]	12,203	12,845	-5	3,256	3,438	-5
Items affecting comparability	-1,444	-940		-40	-21	
Operating profit	10,759	11,905	-10	3,216	3,417	-6
Financial items	-1,157	-1,182		-236	-337	
Profit before tax	9,602	10,723	-10	2,980	3,080	-3
Adjusted Profit before tax[1]	11,046	11,663	-5	3,020	3,101	-3
Tax[2]	-1,050	-1,938		637	-14	
Profit for the period	8,552	8,785	-3	3,617	3,066	18
Earnings per share, SEK	11.23	11.56		4.85	4.11	
Adjusted earnings per share, SEK[3]	13.32	13.09		4.97	4.32	

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

[2]A decision in a tax case in Sweden reduced taxes for the full year and fourth quarter of 2018 by approximately SEK 1.1bn.

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

SUMMARY OF THE FULL YEAR AND FOURTH QUARTER OF 2018

The Group's net sales increased 8.5% in 2018 compared with the preceding year. Organic net sales, excluding the lower sales of mother reels due to production closures, increased 3.1%. Including the lower sales of mother reels, organic net sales increased 2.6%. The Group's adjusted EBITA declined 4%. The adjusted EBITA margin declined 1.4 percentage points to 10.9%. Higher prices, better mix, higher volumes, cost savings and the acquisition of BSN medical had a positive impact on earnings. Higher raw material and energy costs had a negative impact of SEK -4,705m on earnings, which corresponds to a negative impact on the adjusted EBITA margin of -4.2 percentage points. The adjusted return on capital employed was 12.0%.

The Board of Directors proposes a dividend of SEK 5.75 per share.

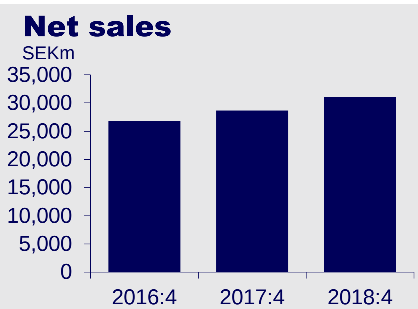
During the year, we worked with all parts of the business to increase profitability and counteract the negative effect that significantly higher raw material and energy costs had on our earnings. We implemented measures in several areas:

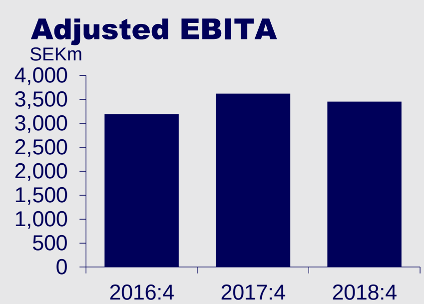
- We continued to invest in our strong brands and launched 29 innovations during the year that have strengthened our customer and consumer offering and improved the product mix.
- We have implemented price increases in all business areas in 2018. Further price increases are expected in 2019.
- We intensified our efficiency improvements and restructuring of the business. During the year, we achieved SEK 1,040m in cost savings. We have decided on further restructuring measures as part of "Tissue Roadmap" and are continuing our work with "Cure or Kill".
- During the year, we launched a Group-wide cost-savings program. The program is expected to generate annual cost savings of approximately SEK 900m, with full effect at the end of 2019. The program is proceeding as planned and for the fourth quarter of 2018, cost savings amounted to SEK 18m. At the end of 2018, the annual rate amounted to about SEK 150m.
- To strengthen competitiveness and increase efficiency, we also made changes to the company's organizational structure and Executive Management Team.

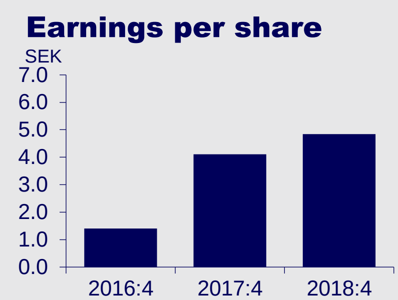
Our work to contribute to a sustainable and circular society has been intensified and rewarded. During the year, we qualified for inclusion in the Dow Jones Sustainability Index, and were named industry leader in the Household Products sector.

The Group's net sales increased 8.5% in the fourth quarter of 2018 compared with the corresponding period a year ago. Organic net sales, excluding the lower sales of mother reels, increased 4.0%. Including the lower sales of mother reels, organic net sales increased 3.3%, of which volume accounted for 0.5% and price/mix for 2.8%. Organic net sales was positively impacted by higher prices in all business areas. In emerging markets, which accounted for 36% of net sales, organic net sales increased 8.4%, while the increase in mature markets was 0.7%.

The Group's adjusted EBITA in the fourth quarter of 2018 declined 5% compared with the corresponding period a year ago. Earnings were positively impacted by higher prices in all business areas, higher volumes and cost savings amounting to SEK 273m, of which SEK 18m was related to the Group-wide cost-savings program. Higher raw material and energy costs had a negative impact of SEK -1,433m on earnings, which corresponds to a negative impact on the adjusted EBITA margin of -4.8 percentage points. The market price for pulp is about 20% higher compared with the corresponding period a year ago. The market price of oil-based raw materials also increased significantly. Furthermore, higher distribution costs had a negative impact on earnings. The Group's adjusted EBITA margin decreased 1.5 percentage points to 11.1%. The adjusted return on capital employed was 12.7%. Operating cash flow increased 1%.







Excluding items affecting comparability; for amounts see page 11.

ADJUSTED EARNINGS TREND

SEKm	1812	1712	%	2018:4	2017:4	%
Net sales	**118,500**	109,265	8	**31,112**	28,664	9
Cost of goods sold[1]	-85,058	-76,899		-22,574	-20,236	
Adjusted gross profit[1]	**33,442**	32,366	3	**8,538**	8,428	1
Sales, general and administration[1]	-20,507	-18,961		-5,087	-4,809	
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	**12,935**	13,405	-4	**3,451**	3,619	-5
Amortization of acquisition-related intangible assets[1]	-732	-560		-195	-181	
Adjusted operating profit[1]	**12,203**	12,845	-5	**3,256**	3,438	-5
Financial items	-1,157	-1,182		-236	-337	
Adjusted profit before tax[1]	**11,046**	11,663	-5	**3,020**	3,101	-3
Adjusted tax[1,2]	-1,490	-2,191		602	-26	
Adjusted profit for the period[1]	**9,556**	9,472	1	**3,622**	3,075	18

[1]Excluding items affecting comparability; for amounts see page 11.
[2]A decision in a tax case in Sweden reduced taxes for the full year and fourth quarter of 2018 by approximately SEK 1.1bn.

Adjusted Margins (%)						
Gross margin[1]	**28.2**	29.6		**27.4**	29.4	
EBITA margin[1]	**10.9**	12.3		**11.1**	12.6	
Operating margin[1]	**10.3**	11.8		**10.5**	12.0	
Financial net margin	-1.0	-1.1		-0.8	-1.2	
Profit margin[1]	**9.3**	10.7		**9.7**	10.8	
Tax[1,2]	-1.3	-2.0		1.9	-0.1	
Net margin[1]	**8.0**	8.7		**11.6**	10.7	

[1]Excluding items affecting comparability; for amounts see page 11.
[2]A decision in a tax case in Sweden reduced taxes for the full year and fourth quarter of 2018 by approximately SEK 1.1bn.

ADJUSTED EBITA BY BUSINESS AREA

SEKm	1812	1712	%	2018:4	2017:4	%
Personal Care	6,354	5,937	7	1,652	1,539	7
Consumer Tissue	3,331	4,084	-18	840	900	-7
Professional Hygiene	3,841	4,004	-4	1,085	1,344	-19
Other	-591	-620		-126	-164	
Total[1]	**12,935**	13,405	-4	**3,451**	3,619	-5

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

ADJUSTED OPERATING PROFIT BY BUSINESS AREA

SEKm	1812	1712	%	2018:4	2017:4	%
Personal Care	5,663	5,431	4	1,470	1,369	7
Consumer Tissue	3,326	4,078	-18	836	899	-7
Professional Hygiene	3,805	3,956	-4	1,076	1,335	-19
Other	-591	-620		-126	-165	
Total[1]	**12,203**	12,845	-5	**3,256**	3,438	-5

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

OPERATING CASH FLOW BY BUSINESS AREA

SEKm	1812	1712	%	2018:4	2017:4	%
Personal Care	5,812	5,453	7	1,483	1,440	3
Consumer Tissue	3,691	3,850	-4	1,833	1,094	68
Professional Hygiene	3,678	4,411	-17	1,000	1,623	-38
Other	-857	-991		-393	-269	
Total	**12,324**	12,723	-3	**3,923**	3,888	1

GROUP

MARKET/EXTERNAL ENVIRONMENT

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

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

Change in net sales (%)

	1812 vs 1712	18:4 vs 17:4
Total	**8.5**	**8.5**
Price/mix	2.1	2.8
Volume	0.5	0.5
Currency	3.5	4.5
Acquisitions	2.4	0.7
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1812 vs 1712	18:4 vs 17:4
Total	**-4**	**-5**
Price/mix	16	21
Volume	5	6
Raw materials	-33	-36
Energy	-2	-3
Currency	5	6
Other	5	1

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

Net sales increased 8.5% compared with the corresponding period a year ago to SEK 118,500m (109,265). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.6%, of which volume accounted for 0.5% and price/mix for 2.1%. Organic net sales increased 0.9% in mature markets and increased 5.9% in emerging markets. Emerging markets accounted for 35% of net sales. Exchange rate effects increased net sales by 3.5%. Acquisitions increased net sales by 2.4%, of which the acquisition of BSN medical accounted for 1.8% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 0.6%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) declined 4% (11% excluding currency translation effects and acquisitions) to SEK 12,935m (13,405). Higher prices, a better mix, higher volumes, cost savings and the acquisition of BSN medical had a positive impact on earnings. Cost savings amounted to SEK 1,040m, of which SEK 18m was related to the Group-wide cost-savings program. Higher raw material and energy costs had a negative earnings effect of SEK -4,705m, which corresponds to a negative impact on the adjusted EBITA margin of -4.2 percentage points. Furthermore, higher distribution costs had a negative impact on earnings. The acquisition of BSN medical increased profit by 2%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

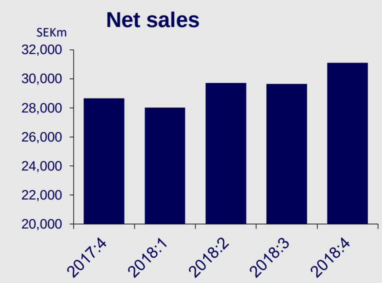
Items affecting comparability amounted to SEK -1,444m (-940) and include costs of approximately SEK -1,230m related to restructuring measures at production facilities in Professional Hygiene and Consumer Tissue. Impairments in the associate Asaleo Care had an impact of SEK -280m on items affecting comparability. Restructuring costs related to the Group-wide cost-savings program had a negative impact of SEK -130m on items affecting comparability. Acquisitions relating to the increase in the shareholding in associates in Latin America positively impacted items affecting comparability by SEK 165m. A reversal of a provision for foreign tax of a non-recurring nature on non-current assets outside Sweden had a positive impact of SEK 290m on items affecting comparability. Other costs negatively impacted items affecting comparability by SEK -259m.

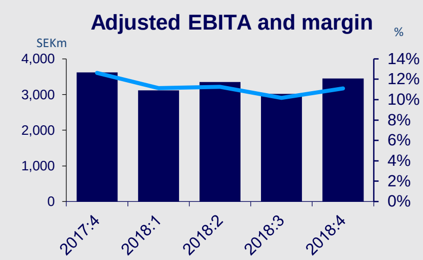
Financial items decreased to SEK -1,157m (-1,182). The decrease is primarily due to lower interest. Higher average net debt had a negative impact on financial items during the period.

Adjusted profit before tax decreased 5% (12% excluding currency translation effects and acquisitions) to SEK 11,046m (11,663).

The tax expense, excluding effects of items affecting comparability, was SEK 1,490m (2,191). The reported tax expense was reduced by about SEK 1.1bn due to a decision in a tax case in Sweden.

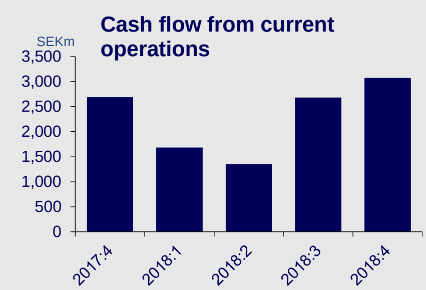
Adjusted profit for the period increased 1% (decreased 6% excluding currency translation effects and acquisitions) to SEK 9,556m (9,472).





Excluding items affecting comparability

Excluding items affecting comparability



Profit for the period decreased 3% (10% excluding currency translation effects and acquisitions) to SEK 8,552m (8,785). Earnings per share were SEK 11.23 (11.56). The adjusted earnings per share were SEK 13.32 (13.09).

The adjusted return on capital employed was 12.0% (14.9). The adjusted return on equity was 18.0% (21.3).

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

Net sales increased 8.5% compared with the corresponding period a year ago to SEK 31,112m (28,664). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.3%, of which volume accounted for 0.5% and price/mix for 2.8%. Higher prices in all business areas had a positive impact on organic net sales. The higher volumes were attributable to Personal Care. In Consumer Tissue, volumes declined due to restructuring measures within the scope of “Tissue Roadmap”, entailing lower sales of mother reels. Organic net sales increased 0.7% in mature markets and increased 8.4% in emerging markets. Emerging markets accounted for 36% of net sales. Exchange rate effects increased net sales by 4.5%. 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 5% (11% excluding currency translation effects and acquisitions) to SEK 3,451m (3,619). Earnings were positively impacted by higher prices in all business areas, higher volumes and cost savings amounting to SEK 273m, of which SEK 18m was related to the Group-wide cost-savings program. Higher raw material and energy costs had a negative impact of SEK -1,433m on earnings, which corresponds to a negative impact on the adjusted EBITA margin of -4.8 percentage points. The market price for pulp is about 20% higher compared with the corresponding period a year ago. The market price of oil-based raw materials has also increased significantly. Furthermore, higher distribution costs had a negative impact on earnings.

Adjusted profit before tax declined 3% (9% excluding currency translation effects and acquisitions) to SEK 3,020m (3,101).

Profit for the period increased 18% (12% excluding currency translation effects and acquisitions) to SEK 3,617m (3,066). Earnings per share were SEK 4.85 (4.11). The adjusted earnings per share were SEK 4.97 (4.32).

The adjusted return on capital employed was 12.7% (14.4). The adjusted return on equity was 26.7% (25.9).

CASH FLOW AND FINANCING

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

The operating cash surplus amounted to SEK 18,570m (18,465). The cash flow effect of changes in working capital was SEK -971m (-740). Current capital expenditures amounted to SEK -4,357m (-3,911). Operating cash flow was SEK 12,324m (12,723).

Financial items decreased to SEK -1,157m (-1,182). The decrease is primarily due to lower interest. Higher average net debt had a negative impact on financial items during the period. Income tax payments totaled SEK 2,466m (2,971). Cash flow from current operations amounted to SEK 8,787m (8,745) during the period.

Strategic capital expenditures amounted to SEK -2,424m (-2,101). The net sum of acquisitions and divestments was SEK -626m (-26,016). Dividends to shareholders impacted cash flow by SEK -4,435m (-285). Net cash flow totaled SEK 1,307m (-18,791).

Net debt increased by SEK 1,937m compared with the same point in time last year and amounted to SEK 54,404m. Excluding pension liabilities, net debt amounted to SEK 50,263m. Net cash flow reduced net debt by SEK 1,307m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, increased net debt by SEK 1,042m. Exchange rate movements increased net debt by SEK 2,202m.

The debt/equity ratio was 0.99 (1.06). Excluding pension liabilities, the debt/equity ratio was 0.92 (0.99). The debt payment capacity was 25% (26). Net debt in relation to adjusted EBITDA amounted to 2.96 (2.83).

EQUITY

January–December 2018

The Group's equity increased by SEK 5,329m during the period, to SEK 54,899m. Net profit for the period increased equity by SEK 8,552m. Equity decreased by SEK 4,435m on account of the dividend to shareholders. Equity decreased net after tax by SEK 861m 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 77m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 1,976m. Other items increased equity by SEK 20m.

TAX

January–December 2018

A tax expense of SEK 1,490m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 13.5% for the period. The tax expense including items affecting comparability was SEK 1,050m, corresponding to a tax rate of 10.9% for the period. The reported tax expense was reduced by about SEK 1.1bn due to a decision in a tax case in Sweden.

DIVIDEND

The Board of Directors proposes a dividend of SEK 5.75 (5.75) per share or SEK 4,038m (4,038). April 8, 2019 is proposed as the record date for the right to receive dividends.

EVENTS DURING THE QUARTER

Essity presents new organization

On October 29, 2018 Essity announced that the company – to strengthen its competitiveness and increase its efficiency – is implementing the following changes to its organizational structure and Executive Management Team:

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

The changes entail that the number of members of the Executive Management Team is being reduced from 14 to 12 and that the number of staff functions is being reduced from six to four. The organizational changes took effect in the fourth quarter of 2018.

Decision in tax case

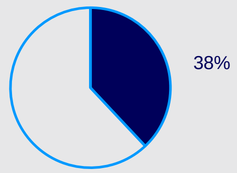
On December 28, 2018, the Supreme Administrative Court announced its decision in the tax case in Sweden. The decision reduced Essity's reported tax expense by approximately SEK 1.1bn in the fourth quarter of 2018. Taxes paid will be refunded to Essity in the first quarter of 2019.

PERSONAL CARE

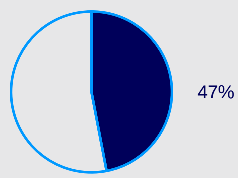
SEKm	1812	1712	%	2018:4	2017:4	%
Net sales	**45,342**	40,586	12	**11,703**	10,831	8
Adjusted EBITA*	**6,354**	5,937	7	**1,652**	1,539	7
Adjusted EBITA margin, %*	**14.0**	14.6		**14.1**	14.2	
Adjusted operating profit*	**5,663**	5,431	4	**1,470**	1,369	7
Adjusted operating margin, %*	**12.5**	13.4		**12.6**	12.6	
Adjusted return on capital employed, %*	**15.3**	20.5		**15.8**	15.9	
Operating cash flow	**5,812**	5,453		**1,483**	1,440	

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

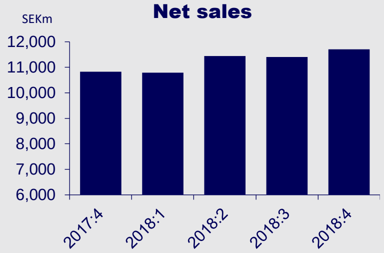
Share of Group, net sales
1812



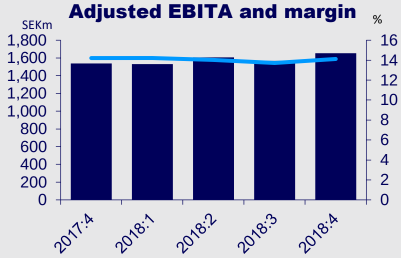
Share of Group, adjusted EBITA
1812



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1812 vs 1712	18:4 vs 17:4
Total	**11.7**	**8.1**
Price/mix	0.6	1.0
Volume	2.4	2.1
Currency	2.9	3.9
Acquisitions	5.8	1.1
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1812 vs 1712	18:4 vs 17:4
Total	**7**	**7**
Price/mix	1	6
Volume	10	13
Raw materials	-20	-24
Energy	0	-1
Currency	7	8
Other	9	5

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

Net sales increased 11.7% to SEK 45,342m (40,586). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.0%, of which volume accounted for 2.4% and price/mix for 0.6%. Organic net sales in mature markets increased 2.3%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 4.4%. Acquisitions increased net sales by 5.8%, of which the acquisition of BSN medical accounted for 4.8% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 1.0%. Exchange rate effects increased net sales by 2.9%.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 4.2%. Growth was related to emerging markets, North America and Western Europe. For Baby Care, organic net sales decreased 2.3%. The decrease was related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 9.3%. The increase was related to both emerging markets and Western Europe.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 7% (declined 6% excluding currency translation effects and acquisitions) to SEK 6,354m (5,937). The increase was mainly related to a better price/mix, higher volumes, cost savings and the acquisition of BSN medical. Higher raw material and energy costs and higher distribution costs negatively impacted earnings. Acquisitions increased profit by 7%, of which the acquisition of BSN medical accounted for 6% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 1%.

The operating cash surplus amounted to SEK 7,821m (7,238).

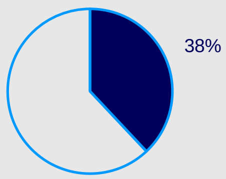
Fourth quarter of 2018 compared with the corresponding period a year ago

Net sales increased 8.1% to SEK 11,703m (10,831). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.1%, of which volume accounted for 2.1% and price/mix for 1.0%. Organic net sales in mature markets increased 1.9%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 5.6%. 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 3.9%.

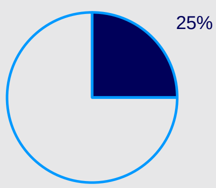
For Incontinence Products, with the globally leading TENA brand, organic net sales increased 4.0%. Growth was related to emerging markets, North America and Western Europe. Growth in Europe was attributable to both the retail trade and the healthcare sector. In North America, growth was attributable to the healthcare sector. For Medical Solutions, organic net sales decreased 0.9%, mainly related to the US. For Baby Care, organic net sales decreased 1.9% mainly related to emerging markets. For Feminine Care, organic net sales increased 13.4%. The increase was related to emerging markets and Western Europe.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 7% (decreased 1% excluding currency translation effects and acquisitions) to SEK 1,652m (1,539). The increase was mainly related to higher volumes, higher prices and cost savings. Higher raw material and energy costs negatively impacted profits by SEK -376m, which corresponds to a negative impact on the adjusted EBITA margin of -3.4 percentage points. Market prices for pulp and oil-based raw materials increased significantly. Higher distribution costs also negatively impacted earnings. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

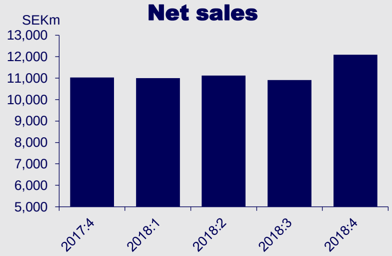
Share of Group, net sales
1812



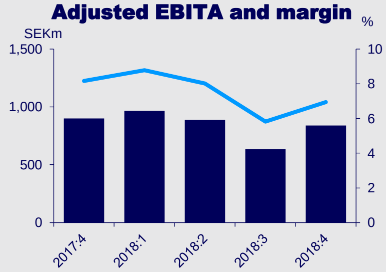
Share of Group, adjusted EBITA
1812



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1812 vs 1712	18:4 vs 17:4
Total	**7.4**	**9.7**
Price/mix	3.7	5.1
Volume	-1.1	-0.5
Currency	4.3	4.5
Acquisitions	0.5	0.6
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1812 vs 1712	18:4 vs 17:4
Total	**-18**	**-7**
Price/mix	38	66
Volume	0	3
Raw materials	-66	-79
Energy	-3	-9
Currency	3	5
Other	10	7

CONSUMER TISSUE

SEKm	1812	1712	%	2018:4	2017:4	%
Net sales	**45,125**	42,014	7	**12,094**	11,026	10
Adjusted EBITA*	**3,331**	4,084	-18	**840**	900	-7
Adjusted EBITA margin, %*	**7.4**	9.7		**6.9**	8.2	
Adjusted operating profit*	**3,326**	4,078	-18	**836**	899	-7
Adjusted operating margin, %*	**7.4**	9.7		**6.9**	8.2	
Adjusted return on capital employed, %*	**7.4**	9.8		**7.4**	8.4	
Operating cash flow	**3,691**	3,850		**1,833**	1,094	

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

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

Net sales increased 7.4% to SEK 45,125m (42,014). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.6%, of which volume accounted for -1.1% and price/mix for 3.7%. The increase was mainly attributable to Asia and Europe. Organic net sales increased 0.7% in mature markets. In emerging markets, which accounted for 44% of net sales, organic net sales increased by 5.0%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.5%. Exchange rate effects increased net sales by 4.3%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 18% (22% excluding currency translation effects and acquisitions) to SEK 3,331m (4,084). Higher prices and a better mix as well as cost savings positively impacted earnings. Higher raw material and energy costs as well as higher distribution costs negatively impacted earnings. The significantly higher raw material costs were mainly the result of higher pulp prices.

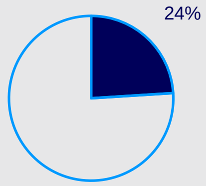
The operating cash surplus totaled SEK 5,612m (6,163).

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

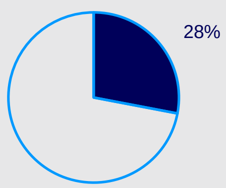
Net sales increased 9.7% to SEK 12,094m (11,026). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.6%, of which volume accounted for -0.5% and price/mix for 5.1%. The price/mix was positively impacted by higher prices in Asia, Europe and Latin America. The lower volumes were partly the result of restructuring measures within the scope of “Tissue Roadmap”, entailing lower sales of mother reels. Organic net sales increased 1.8% in mature markets. In emerging markets, which accounted for 47% of net sales, organic net sales increased by 8.5%. 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 4.5%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 7% (13% excluding currency translation effects and acquisitions) to SEK 840m (900). Earnings were positively impacted by higher prices, a better mix, higher volumes as well as cost savings. Selling prices were higher in Asia, Europe and Latin America. Higher raw material and energy costs negatively affected earnings by SEK -790m, corresponding to a negative impact on the adjusted EBITA margin of -6.8 percentage points. The significantly higher raw material costs were mainly the result of higher pulp prices. The market price for pulp was about 20% higher compared with the corresponding period a year ago. Higher distribution costs also negatively affected earnings. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

Share of Group, net sales
1812

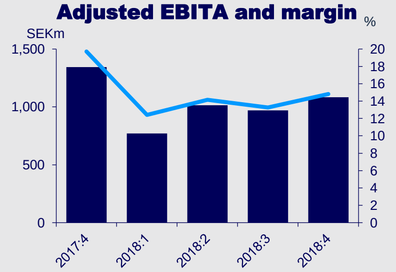


Share of Group, adjusted EBITA
1812



Net sales

Adjusted EBITA and margin



Change in net sales (%)

	1812 vs 1712	18:4 vs 17:4
Total	**4.9**	**7.4**
Price/mix	2.2	1.7
Volume	-0.3	-0.2
Currency	2.9	5.8
Acquisitions	0.1	0.1
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1812 vs 1712	18:4 vs 17:4
Total	**-4**	**-19**
Price/mix	13	6
Volume	0	0
Raw materials	-15	-18
Energy	-2	-2
Currency	3	4
Other	-3	-9

PROFESSIONAL HYGIENE

SEKm	1812	1712	%	2018:4	2017:4	%
Net sales	**28,017**	26,700	5	**7,322**	6,816	7
Adjusted EBITA*	**3,841**	4,004	-4	**1,085**	1,344	-19
Adjusted EBITA margin, %*	**13.7**	15.0		**14.8**	19.7	
Adjusted operating profit*	**3,805**	3,956	-4	**1,076**	1,335	-19
Adjusted operating margin, %*	**13.6**	14.8		**14.7**	19.6	
Adjusted return on capital employed, %*	**18.1**	19.7		**20.0**	27.4	
Operating cash flow	**3,678**	4,411		**1,000**	1,623	

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

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

Net sales increased 4.9% to SEK 28,017m (26,700). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.9%, of which volume accounted for -0.3% and price/mix for 2.2%. The increase was primarily related to Europe, Asia and Latin America. Organic net sales decreased 0.6% 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 13.7%. 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 2.9%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 4% (8% excluding currency translation effects and acquisitions) to SEK 3,841m (4,004). Earnings were impacted positively by higher prices, a better mix and cost savings. Higher raw material and energy costs as well as higher distribution costs had a negative impact on earnings.

The operating cash surplus was SEK 5,630m (5,649).

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

Net sales increased 7.4% to SEK 7,322m (6,816). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.5%, of which volume accounted for -0.2% and price/mix for 1.7%. The increase was primarily related to Asia, Latin America and Europe. The price/mix was positively impacted by higher prices in Asia, Europe, Latin America and North America. Organic net sales decreased 1.7% in mature markets. Organic net sales increased in Western Europe while it decreased in North America. In emerging markets, which accounted for 20% of net sales, organic net sales increased 16.8%. 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 5.8%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 19% (24% excluding currency translation effects and acquisitions) to SEK 1,085m (1,344). Earnings in the preceding year were positively impacted by approximately SEK 200m as a result of a one-off effect mainly due to changed healthcare benefits for retired employees in the US and adjustments of accruals mainly related to volume-dependent customer rebates. Higher prices and cost savings had a positive impact on earnings. Higher raw material and energy costs had a negative impact on earnings of SEK -269m, which corresponds to a negative impact on the adjusted EBITA margin of -3.9 percentage points. In addition, higher distribution costs negatively impacted earnings.

DISTRIBUTION OF SHARES

December 31, 2018	Class A	Class B	Total
Registered number of shares	63,992,771	638,349,718	702,342,489

At the end of 2018, the proportion of Class A shares was 9.1%. During the fourth quarter, 90,042 Class A shares were converted into Class B shares at the request of shareholders. The total number of votes in the company amounts to 1,278,277,428.

FUTURE REPORTS

Essity's Annual Report for 2018 is intended to be published in the week beginning March 11, 2019.

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

INVESTOR DAY

Essity will arrange an Investor Day in Stockholm, Sweden, on May 23, 2019.

ANNUAL GENERAL MEETING

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

INVITATION TO PRESS CONFERENCE ON YEAR-END REPORT 2018

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

Time: 9:00 a.m. CET, Thursday, January 31, 2019
Location: Essity's headquarters, Waterfront Building, Klarabergsviadukten 63, Stockholm, Sweden

The presentation will be webcast at www.essity.com. To participate by telephone, call: +44 (0) 207 192 85 01, +1 917 720 01 81 or +46 (0) 8 566 184 30. Please call well in advance of the start of the conference. Specify "Essity" or conference ID no. 3475605.
Link to webcast: https://essity.videosync.fi/2019-01-31-q4

Stockholm, January 31, 2019
Essity Aktiebolag (publ)

Magnus Groth
President and CEO

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. 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 January 31, 2019.

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

CONDENSED STATEMENT OF PROFIT OR LOSS

SEKm	2018:4	2017:4	2018:3	1812	1712
Net sales	**31,112**	28,664	29,647	**118,500**	109,265
Cost of goods sold[1,2]	-22,574	-20,236	-21,416	-85,058	-76,899
Items affecting comparability[1,2]	71	35	-773	-1,437	-509
Gross profit	**8,609**	8,463	7,458	**32,005**	31,857
Sales, general and administration[1]	-5,106	-4,856	-5,221	-20,570	-19,130
Items affecting comparability[2]	-47	-57	-238	62	-346
Share of profits of associates and joint ventures	19	47	6	63	169
Operating profit before amortization of acquisition-related intangible assets	**3,475**	3,597	2,005	**11,560**	12,550
Amortization of acquisition-related intangible assets[1]	-195	-181	-187	-732	-560
Items affecting comparability[2]	-64	1	-5	-69	-85
Operating profit	**3,216**	3,417	1,813	**10,759**	11,905
Financial items	-236	-337	-332	-1,157	-1,182
Profit before tax	**2,980**	3,080	1,481	**9,602**	10,723
Tax	637	-14	-403	-1,050	-1,938
Profit for the period	**3,617**	3,066	1,078	**8,552**	8,785
Earnings attributable to:					
Owners of the parent	3,403	2,889	988	7,886	8,116
Non-controlling interests	214	177	90	666	669
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	4.85	4.11	1.41	11.23	11.56
- after dilution effects	4.85	4.11	1.41	11.23	11.56
[1]Of which, depreciation	-1,611	-1,527	-1,577	-6,175	-5,724
[2]Of which, impairment	23	-17	-239	-533	-386
Gross margin	**27.7**	29.5	25.2	**27.0**	29.2
EBITA margin	**11.2**	12.5	6.8	**9.8**	11.5
Operating margin	10.3	11.9	6.1	9.1	10.9
Financial net margin	-0.8	-1.2	-1.1	-1.0	-1.1
Profit margin	**9.5**	10.7	5.0	**8.1**	9.8
Tax	2.0	0.0	-1.4	-0.9	-1.8
Net margin	**11.5**	10.7	3.6	**7.2**	8.0
Excluding items affecting comparability:					
Gross margin	**27.4**	29.4	27.8	**28.2**	29.6
EBITA margin	**11.1**	12.6	10.2	**10.9**	12.3
Operating margin	10.5	12.0	9.5	10.3	11.8
Financial net margin	-0.8	-1.2	-1.1	-1.0	-1.1
Profit margin	**9.7**	10.8	8.4	**9.3**	10.7
Tax	1.9	-0.1	-2.3	-1.3	-2.0
Net margin	**11.6**	10.7	6.1	**8.0**	8.7

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

SEKm	2018:4	2017:4	2018:3	1812	1712
Profit for the period	**3,617**	3,066	1,078	**8,552**	8,785
Other comprehensive income for the period:					
Items that may not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	-2,196	-399	597	-1,036	1,061
Measured at fair value through other comprehensive income	-4	0	0	-5	0
Income tax attributable to components of other comprehensive income	459	175	-104	176	-218
	-1,741	-224	493	-865	843
Items that have been or may be reclassified subsequently to the income statement					
Financial assets measured at fair value through other comprehensive income	-	-1	-	-	0
Cash flow hedges	-303	96	235	93	-11
Translation differences in foreign operations	-559	1,883	-1,500	2,080	320
Gains/losses from hedges of net investments in foreign operations	300	-589	287	-122	-1,968
Other comprehensive income from associated companies	13	-2	1	23	-22
Income tax attributable to components of other comprehensive income	10	107	-124	4	439
	-539	1,494	-1,101	2,078	-1,242
Other comprehensive income for the period, net of tax	**-2,280**	1,270	-608	**1,213**	-399
Total comprehensive income for the period	**1,337**	4,336	470	**9,765**	8,386
Total comprehensive income attributable to:					
Owners of the parent	1,166	3,923	719	8,893	8,029
Non-controlling interests	171	413	-249	872	357

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	1812	1712
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	8,893	8,029
Dividend	-4,038	0
Transaction with owner (Svenska Cellulosa Aktiebolaget SCA)[1]	0	842
Private placement to non-controlling interest	3	504
Private placement to non-controlling interest, dilution	0	-290
	1	0
Closing balance	**47,141**	42,289
Non-controlling interests		
Opening balance, January 1	7,281	6,376
Total comprehensive income for the period	872	357
Dividend	-397	-285
Private placement to non-controlling interest	2	465
Private placement to non-controlling interest, dilution	0	290
Acquisition of non-controlling interests	0	78
Closing balance	**7,758**	7,281
Total equity, closing balance	**54,899**	49,570
[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	1812	1712
Operating cash surplus	18,570	18,465
Change in working capital	-971	-740
Current capital expenditures, net	-4,357	-3,911
Restructuring costs, etc.	-918	-1,091
Operating cash flow	**12,324**	12,723
Financial items	-1,157	-1,182
Income taxes paid	-2,466	-2,971
Other	86	175
Cash flow from current operations	**8,787**	8,745
Acquisitions	-694	-26,045
Strategic capital expenditures in non-current assets	-2,424	-2,101
Divestments	68	29
Cash flow before dividend	**5,737**	-19,372
Private placement to non-controlling interest	5	28
Dividend to non-controlling interests	-397	-285
Dividend	-4,038	0
Transactions with shareholders	0	838
Net cash flow	**1,307**	-18,791
Net debt at the start of the period	**-52,467**	-35,173
Net cash flow	1,307	-18,791
Remeasurement to equity	-1,042	1,061
Translation differences	-2,202	436
Net debt at the end of the period	**-54,404**	-52,467
Debt/equity ratio	**0.99**	1.06
Debt payment capacity, %	**25**	26
Net debt / EBITDA	**3.11**	2.91
Net debt / Adjusted EBITDA	**2.96**	2.83

CONSOLIDATED CASH FLOW STATEMENT

SEKm	1812	1712
Operating activities		
Profit before tax	9,602	10,723
Adjustment for non-cash items[1]	6,995	5,717
	16,597	16,440
Paid tax	-2,466	-2,971
Cash flow from operating activities before changes in working capital	**14,131**	13,469
Cash flow from changes in working capital		
Change in inventories	-1,017	-1,703
Change in operating receivables	-344	1,522
Change in operating liabilities	390	-559
Cash flow from operating activities	**13,160**	12,729
Investing activities		
Company acquisitions	-461	-13,070
Divestments	68	29
Investments in intangible assets and property, plant and equipment	-6,906	-6,160
Sale of property, plant and equipment	134	152
Loans granted to external parties	-340	-287
Cash flow from investing activities	**-7,505**	-19,336
Financing activities		
Private placement to non-controlling interests	5	28
Acquisition of non-controlling interests	0	-2
Dividend	-4,038	0
Change, receivable from Group companies	0	952
Loans raised	4,386	31,037
Amortization of debt	-6,777	-25,982
Dividend to non-controlling interests	-397	-285
Transactions with shareholders	0	838
Cash flow from financing activities	**-6,821**	6,586
Cash flow for the period	**-1,166**	-21
Cash and cash equivalents at the beginning of the period	4,107	4,244
Exchange -differences in cash and cash equivalents	67	-116
Cash and cash equivalents at the end of the period	**3,008**	4,107
Cash flow from operating activities per share, SEK	18.74	18.12
Reconciliation with consolidated operating cash flow statement		
Cash flow for the period	**-1,166**	-21
Amortization of debt	6,777	25,982
Loans raised	-4,386	-31,037
Loans granted to external parties	340	287
Investment through financial lease	-8	-5
Change, receivable from Group companies	0	-952
Net debt in acquired and divested operations	-234	-13,034
Adjustment of financial liabilities relating to acquisitions of previous years	0	62
Accrued interest	-16	-73
Net cash flow according to consolidated operating cash flow statement	**1,307**	-18,791
[1]Depreciation/amortization and impairment of non-current assets	*6,708*	*6,109*
Gain/loss on asset sales and swaps	*35*	*8*
Change, provision related to antitrust cases	*95*	*-248*
Gain/loss on divestments	*-69*	*-17*
Unpaid relating to efficiency program	*669*	*3*
Payments related to efficiency program already recognized	*-257*	*-435*
Change, one-time foreign tax on non-current assets	*-288*	*459*
Share of profits of associated companies, items affecting comparability (Asaleo Care Ltd)	*278*	*0*
Revaluation effect of previously owned holding upon acquisition	*-225*	*0*
Other	*49*	*-162*
Total	*6,995*	*5,717*

CONSOLIDATED BALANCE SHEET

SEKm	December 31, 2018	December 31, 2017
Assets		
Goodwill	33,553	31,697
Other intangible assets	21,475	21,424
Buildings, land, machinery and equipment	51,673	48,482
Participation in joint ventures and associates	777	1,062
Shares and participation	29	32
Surplus in funded pension plans	1,117	1,148
Non-current financial assets	634	552
Deferred tax assets	2,158	2,232
Other non-current assets	705	469
Total non-current assets	**112,121**	107,098
Inventories	15,234	13,739
Trade receivables	18,687	17,607
Current tax assets	2,126	769
Other current receivables	2,599	2,549
Current financial assets	422	1,105
Non-current assets held for sale	69	42
Cash and cash equivalents	3,008	4,107
Total current assets	**42,145**	39,918
Total assets	**154,266**	147,016
Equity		
Share capital	2,350	2,350
Reserves	5,003	3,154
Retained earnings	39,788	36,785
Attributable to owner of the Parent	**47,141**	42,289
Non-controlling interests	7,758	7,281
Total equity	**54,899**	49,570
Liabilities		
Non-current financial liabilities	43,500	47,637
Provisions for pensions	5,258	4,541
Deferred tax liabilities	7,272	7,090
Other non-current provisions	1,694	1,481
Other non-current liabilities	71	79
Total non-current liabilities	**57,795**	60,828
Current financial liabilities	10,827	7,201
Trade payables	15,911	14,748
Current tax liabilities	570	553
Current provisions	1,472	1,547
Other current liabilities	12,792	12,569
Total current liabilities	**41,572**	36,618
Total liabilities	**99,367**	97,446
Total equity and liabilities	**154,266**	147,016

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	December 31, 2018	December 31, 2017
Debt/equity ratio	0.99	1.06
Equity/assets ratio	31%	29%
Equity	54,899	49,570
Equity per share	78	71
Return on equity	16.1%	19.8%
Return on equity excluding items affecting comparability	18.0%	21.3%
Capital employed	109,303	102,037
- of which working capital	7,568	5,901
Return on capital employed*	10.8%	13.9%
Return on capital employed*, excluding items affecting comparability	12.0%	14.9%
Net debt	54,404	52,467
Provisions for restructuring costs are included in the balance sheet as follows		
- Other non-current provisions	1,694	8
- Other current provisions	905	549
Provisions for tax risks are included in the balance sheet as follows		
- Other non-current provisions	701	836
- Other current provisions	30	54

*) rolling 12 months

NET SALES (business area reporting)

SEKm	1812	1712	2018:4	2018:3	2018:2	2018:1	2017:4	2017:3
Personal Care	45,342	40,586	11,703	11,408	11,446	10,785	10,831	10,449
Consumer Tissue	45,125	42,014	12,094	10,912	11,116	11,003	11,026	10,066
Professional Hygiene	28,017	26,700	7,322	7,309	7,168	6,218	6,816	6,635
Other	16	-35	-7	18	-9	14	-9	28
Total net sales	**118,500**	109,265	**31,112**	29,647	29,721	28,020	28,664	27,178

ADJUSTED EBITA (business area reporting)

SEKm	1812	1712	2018:4	2018:3	2018:2	2018:1	2017:4	2017:3
Personal Care	6,354	5,937	1,652	1,565	1,605	1,532	1,539	1,556
Consumer Tissue	3,331	4,084	840	635	890	966	900	1,023
Professional Hygiene	3,841	4,004	1,085	970	1,014	772	1,344	1,023
Other	-591	-620	-126	-154	-160	-151	-164	-170
Total adjusted EBITA	**12,935**	13,405	**3,451**	3,016	3,349	3,119	3,619	3,432

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	1812	1712	2018:4	2018:3	2018:2	2018:1	2017:4	2017:3
Personal Care	5,663	5,431	1,470	1,387	1,434	1,372	1,369	1,404
Consumer Tissue	3,326	4,078	836	635	890	965	899	1,022
Professional Hygiene	3,805	3,956	1,076	960	1,005	764	1,335	1,014
Other	-591	-620	-126	-153	-161	-151	-165	-169
Total adjusted operating profit[1]	**12,203**	12,845	**3,256**	2,829	3,168	2,950	3,438	3,271
Financial items	-1,157	-1,182	-236	-332	-299	-290	-337	-275
Profit before tax[1]	**11,046**	11,663	**3,020**	2,497	2,869	2,660	3,101	2,996
Tax	-1,490	-2,191	602	-670	-745	-677	-26	-745
Net profit for the period[2]	**9,556**	9,472	**3,622**	1,827	2,124	1,983	3,075	2,251
[1]Excluding items affecting comparability before tax amounting to:	-1,444	-940	-40	-1,016	-29	-359	-21	-34
[2]Excluding items affecting comparability after tax amounting to:	-1,004	-687	-5	-749	7	-257	-9	-29

ADJUSTED EBITA MARGIN (business area reporting)

%	1812	1712	2018:4	2018:3	2018:2	2018:1	2017:4	2017:3
Personal Care	14.0	14.6	14.1	13.7	14.0	14.2	14.2	14.9
Consumer Tissue	7.4	9.7	6.9	5.8	8.0	8.8	8.2	10.2
Professional Hygiene	13.7	15.0	14.8	13.3	14.1	12.4	19.7	15.4

STATEMENT OF PROFIT OR LOSS

SEKm	2018:4	2018:3	2018:2	2018:1	2017:4
Net sales	**31,112**	29,647	29,721	28,020	28,664
Cost of goods sold	-22,574	-21,416	-21,104	-19,964	-20,236
Items affecting comparability	71	-773	-181	-554	35
Gross profit	**8,609**	7,458	8,436	7,502	8,463
Sales, general and administration	-5,106	-5,221	-5,279	-4,964	-4,856
Items affecting comparability	-47	-238	152	195	-57
Share of profits of associates and joint ventures	19	6	11	27	47
EBITA	**3,475**	2,005	3,320	2,760	3,597
Amortization of acquisition-related intangible assets	-195	-187	-181	-169	-181
Items affecting comparability	-64	-5	0	0	1
Operating profit	**3,216**	1,813	3,139	2,591	3,417
Financial items	-236	-332	-299	-290	-337
Profit before tax	**2,980**	1,481	2,840	2,301	3,080
Taxes	637	-403	-709	-575	-14
Net profit for the period	**3,617**	1,078	2,131	1,726	3,066

INCOME STATEMENT PARENT COMPANY

SEKm	1812	1712
Administrative expenses	-738	-933
Other operating income	192	367
Operating loss	**-546**	-566
Financial items	17,648	2,247
Profit before tax	**17,102**	1,681
Appropriations and tax on profit for the period	-940	815
Profit for the period	**16,162**	2,496

BALANCE SHEET PARENT COMPANY

SEKm	December 31, 2018	December 31, 2017
Intangible fixed assets	0	0
Tangible fixed assets	5	5
Financial fixed assets	175,447	169,146
Total fixed assets	175,452	169,151
Total current assets	3,041	48,934
Total assets	**178,493**	218,085
Restricted equity	2,350	2,350
Unrestricted equity	87,859	75,735
Total equity	90,209	78,085
Untaxed reserves	1	1
Provisions	879	881
Non-current liabilities	39,226	41,709
Current liabilities	48,178	97,409
Total equity, provisions and liabilities	**178,493**	218,085

NOTES

1 ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

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

The standard is applied retrospectively from the date of initial application January 1, 2018 (the modified retrospective method). No transition effects have arisen in connection with the transition to IFRS 15, which is why it was not necessary to adjust equity when the new standard was introduced. Also, no reclassifications have been made. The recognition of discounts and performance obligations has not changed since Essity manufactures and sells finished products and was already processing discounts in accordance with the new standard. Historical experience is used to estimate the share of returns at the date of sale and revenue is only recognized for products that have been sold and that are not expected to be returned. The rights of customers to return products are only granted on a limited basis and historical volumes returned have been limited.

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

Effects of future accounting standards

IFRS 16 Leases
In 2018, Essity continued it preparations for the transition to the new standard IFRS 16 Leases. Leases have been analyzed and evaluated, system support for managing leases has been implemented and the organization has received training in the new standard and the new system support. When the standard becomes effective on January 1, 2019, Essity will apply the modified retrospective approach, entailing an adjustment of the opening balance with the cumulative effect of initially applying the standard on the first date of initial application and that comparative years will not be 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 has chosen to adjust the value of the right-of-use asset downward in an amount that in the 2018 year-end accounts was recognized as non-current and current provision. Only marginal reclassifications of accrued and prepaid lease payments and adjustments of provisions have taken place. An incremental borrowing rate has been set by 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.
The following preliminary adjustments will be recognized in Essity's balance sheet on January 1, 2019 when the standard became effective. The right-of-use assets largely comprise leases for offices and distribution centers:

Preliminary effect of IFRS 16 SEK billion	**Opening balance, January 1, 2019**
Right-of-use asset	3.7
Lease liability	3.7

Essity assesses that IFRS 16 will have a slightly positive impact on EBITA and a slightly negative impact on financial items. Total assets will increase as a result of an increase in non-current assets and net debt.

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 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	Available-for-sale financial assets	Measured at fair value through OCI	Financial liabilities measured at amortized cost	Of which fair value by level[1]	
December 31, 2018							1	2
Derivatives	1,255	294	961	-	-	-	-	1,255
Non-current financial assets	87	-	-	-	87	-	87	-
Total assets	1,342	294	961	-	87	0	87	1,255
Derivatives	443	399	44	-	-	-	-	443
Financial liabilities								
Current financial liabilities	10,300	905	-	-	-	9,395	-	905
Non-current financial liabilities	43,442	16,083	-	-	-	27,359	-	16,083
Total liabilities	54,185	17,387	44	-	-	36,754	-	17,431
December 31, 2017								
Derivatives	1,555	816	739	-	-	-	-	1,555
Non-current financial assets	87	-	-	87	-	-	87	-
Total assets	1,642	816	739	87	-	0	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 54,434m (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 year-end 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	1812	1712
Total assets	154,430	147,016
-Financial receivables	-5,181	-6,912
-Non-current non-interest bearing liabilities	-9,037	-8,650
-Current non-interest bearing liabilities	-30,909	-29,417
Capital employed	109,303	102,037

SEKm	2018:4	2018:3	2018:2	2018:1	2017:4
Personal Care	41,768	41,885	42,888	42,033	39,447
Consumer Tissue	44,915	45,474	46,714	45,091	43,569
Professional Hygiene	22,153	21,291	22,008	20,445	20,034
Other	467	-517	-463	-315	-1,013
Capital employed	109,303	108,133	111,147	107,254	102,037

Working capital

SEKm	1812	1712
Inventories	15,234	13,739
Accounts receivables	18,851	17,607
Other current receivables	2,599	2,549
Accounts payables	-15,911	-14,748
Other current liabilities	-12,956	-12,569
Adjustments	-249	-677
Working capital	7,568	5,901

Net debt

SEKm	1812	1712
Surplus in funded pension plans	1,117	1,148
Non-current financial assets	634	552
Current financial assets	422	1,105
Cash and cash equivalents	3,008	4,107
Financial receivables	5,181	6,912
Non-current financial liabilities	43,500	47,637
Provisions for pensions	5,258	4,541
Current financial liabilities	10,827	7,201
Financial liabilities	59,585	59,379
Net debt	54,404	52,467

EBITDA

SEKm	1812	1712	2018:4	2017:4
Operating profit	10,759	11,905	3,216	3,417
-Amortization of acquisition-related intangible assets	732	560	195	181
-Depreciations	5,443	5,164	1,416	1,348
-Items affecting comparability, depreciations	0	0	0	-2
-Impairment	19	0	9	0
-Items affecting comparability, impairment	445	301	-96	18
-Items affecting comparability, impairment of acquisition-related intangible assets	69	85	64	-1
EBITDA	17,467	18,015	4,804	4,961
-Items affecting comparability excluding depreciation and impairment	930	554	72	6
Adjusted EBITDA	18,397	18,569	4,876	4,967

EBITA

SEKm	1812	1712	2018:4	2017:4
Operating profit	10,759	11,905	3,216	3,417
-Amortization of acquisition-related intangible assets	732	560	195	181
-Items affecting comparability amortization of acquisition-related intangible assets	69	85	64	-1
Operating profit before amortization of acquisition-related intangible assets/EBITA	11,560	12,550	3,475	3,597
EBITA margin (%)	9.8	11.5	11.2	12.5
-Items affecting comparability cost of goods sold	1,437	509	-71	-35
-Items affecting comparability, sales and administration costs	-62	346	47	57
Adjusted EBITA	12,935	13,405	3,451	3,619
Adjusted EBITA margin (%)	10.9	12.3	11.1	12.6

Operating cash flow

SEKm	1812	1712	2018:4	2017:4
Personal Care				
Operating cash surplus	7,821	7,238	2,063	1,948
Change in working capital	-410	-237	-6	81
Current capital expenditures, net	-1,328	-1,282	-575	-556
Restructuring costs, etc.	-271	-266	1	-33
Operating cash flow	5,812	5,453	1,483	1,440
Consumer Tissue				
Operating cash surplus	5,612	6,163	1,441	1,443
Change in working capital	94	-425	920	115
Current capital expenditures, net	-1,770	-1,749	-459	-457
Restructuring costs, etc.	-245	-139	-69	-7
Operating cash flow	3,691	3,850	1,833	1,094
Professional Hygiene				
Operating cash surplus	5,630	5,649	1,553	1,745
Change in working capital	-565	73	-6	189
Current capital expenditures, net	-1,022	-719	-398	-167
Restructuring costs, etc.	-365	-592	-149	-144
Operating cash flow	3,678	4,411	1,000	1,623

Organic net sales*

SEKm	1812	2018:4
Personal Care		
Organic net sales	1,213	338
Currency effect[1]	1,173	416
Acquisition/Disposals	2,371	119
Reported change	4,757	873
Consumer Tissue		
Organic net sales	1,089	511
Currency effect[1]	1,832	494
Acquisition/Disposals	190	64
Reported change	3,111	1,069
Professional Hygiene		
Organic net sales	516	103
Currency effect[1]	780	397
Acquisition/Disposals	22	7
Reported change	1,318	507
Essity		
Organic net sales	2,868	951
Currency effect[1]	3,785	1,307
Acquisition/Disposals	2,582	190
Reported change	9,235	2,448

[1]Consists only of currency translation effects

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