Year-end Report 2019

Essity Aktiebolag (publ)

JANUARY 1 – DECEMBER 31, 2019

(compared with the corresponding period a year ago)

- Net sales increased 8.8% to SEK 128,975m (118,500)
- Organic net sales increased 4.5%
- In emerging markets, which accounted for 37% of net sales, organic net sales increased 9.1%
- Operating profit before amortization of acquisition-related intangible assets (EBITA) increased 31% to SEK 15,127m (11,560)
- Adjusted EBITA increased 22% to SEK 15,840m (12,935)
- Adjusted EBITA margin increased 1.4 percentage points to 12.3% (10.9)
- Profit for the period increased 19% to SEK 10,212m (8,552)
- Earnings per share increased 17% to SEK 13.12 (11.23)
- Adjusted earnings per share increased 10% to SEK 14.69 (13.32)
- Cash flow from current operations increased 108% to SEK 13,208m (6,363)
- The Board of Directors proposes an increase in the dividend of 9% to SEK 6.25 (5.75) per share

EARNINGS TREND

SEKm	1912	1812	%	2019:4	2018:4	%
Net sales	128,975	118,500	9	33,686	31,112	8
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	15,840	12,935	22	4,742	3,451	37
Operating profit before amortization of acquisition-related intangible assets (EBITA)	15,127	11,560	31	4,740	3,475	36
Amortization of acquisition-related intangible assets	-778	-732		-202	-195	
Adjusted operating profit[1]	15,062	12,203	23	4,540	3,256	39
Items affecting comparability	-713	-1,444		-2	-40	
Operating profit	14,349	10,759	33	4,538	3,216	41
Financial items	-1,309	-1,157		-303	-236	
Profit before tax	13,040	9,602	36	4,235	2,980	42
Adjusted Profit before tax[1]	13,753	11,046	25	4,237	3,020	40
Tax[2]	-2,828	-1,050		-1,189	637	
Profit for the period[2]	10,212	8,552	19[2]	3,046	3,617	-16[2]
Earnings per share, SEK	13.12	11.23		3.87	4.85	
Adjusted earnings per share, SEK[3]	14.69	13.32		4.10	4.97	

[1]Excluding items affecting comparability. For amounts, see page 11.
[2]Full-year 2018 and the fourth quarter of 2018 were positively affected by a decision in a tax case in Sweden that reduced the tax cost 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 2019

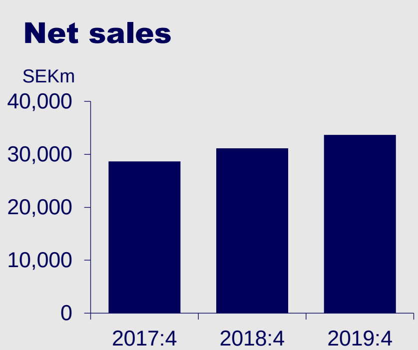
Both growth and profitability increased for Essity in 2019. The Group's organic net sales rose 4.5%. Adjusted EBITA increased 22% while the adjusted EBITA margin rose 1.4 percentage points to 12.3%. Earnings were positively impacted by implemented price increases, a better product mix, higher volumes, cost savings and lower raw material costs. Stock revaluations due to lower raw material prices and higher distribution costs had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs. The adjusted return on capital employed rose by 1.8 percentage points to 13.8%. Earnings per share increased 17% to SEK 13.12. The Board of Directors proposes an increase in the dividend of 9% to SEK 6.25 per share.

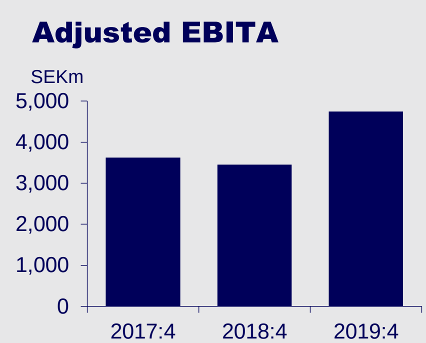
During the year, we increased growth, improved profitability and strengthened our competitiveness for the future through:

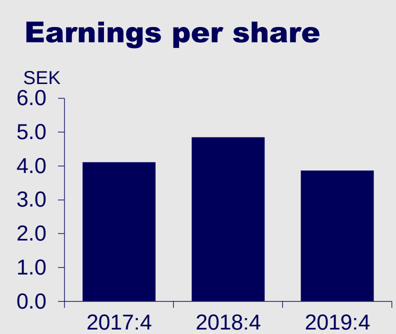
- Successful innovations and investments in sales and marketing that strengthened our market positions and brands. Our innovations have enhanced customer and consumer value and reduced the environmental footprint.
- Online sales increased to approximately SEK 13bn, corresponding to about 10% of net sales.
- Price increases and an improved product mix in all business areas.
- Cost savings totaling approximately SEK 1.1bn, of which SEK 456m was related to continuous cost savings and SEK 637m to the Group-wide cost-savings program. The program has been concluded and at the end of 2019, savings amounted to slightly above SEK 900m on an annualized basis.
- An improved cash flow and strengthened balance sheet.
- Activities to improve underperforming market positions continued and resulted in improved profitability in several markets.
- In emerging markets, which accounted for 37% of net sales, organic net sales rose 9.1%. In Latin America, we strengthened our market positions and organic net sales increased 10%. In China, our Asian subsidiary Vinda strengthened its position as market leader in tissue and launched Feminine Care with the Libresse brand. In Asia, organic net sales rose 11%.
- Within our ongoing efforts to contribute to a sustainable and circular society, we established additional sustainability targets for packaging with a special focus on plastic packaging. We also decided to invest in sustainable technology for alternative fiber for tissue production.
- We are working actively breaking barriers and to increase knowledge surrounding hygiene and health and entered an agreement during the year with UNICEF in Mexico concerning education of children and young people in matters relating to hygiene.

The Group's net sales increased 8.3% in the fourth quarter of 2019 compared with the corresponding period a year ago. Organic net sales increased 3.6%, of which volume accounted for 2.3% and price/mix for 1.3%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 6.6%, while the increase in mature markets was 1.9%.

The Group's adjusted EBITA in the fourth quarter of 2019 increased 37% compared with the corresponding period a year ago. Earnings were positively impacted by higher prices, a better product mix, higher volumes, lower raw material and energy costs and cost savings amounting to SEK 206m, of which SEK 202m were related to the cost-savings program. Investments to increase growth and higher costs for incentive programs resulted in increased sales and marketing costs. Higher distribution costs and stock revaluations due to lower raw material prices had a negative impact on earnings. Lower pulp prices have resulted in price pressure in the market for consumer tissue. In the Consumer Tissue business area, we have finalized some negotiations and agreed on price decreases in Europe. The agreed price decreases are on average low single-digits and will have an impact in the first quarter of 2020. The Group's adjusted EBITA margin increased 3.0 percentage points to 14.1%. The adjusted return on capital employed rose 3.7 percentage points to 16.4%. Operating cash flow increased 46%. Earnings per share were SEK 3.87.







Excluding items affecting comparability; for amounts see page 11.

ADJUSTED EARNINGS TREND

SEKm	1912	1812	%	2019:4	2018:4	%
Net sales	**128,975**	118,500	9	**33,686**	31,112	8
Cost of goods sold[1]	-90,876	-85,058		-22,997	-22,574	
Adjusted gross profit[1]	**38,099**	33,442	14	**10,689**	8,538	25
Sales, general and administration[1]	-22,259	-20,507		-5,947	-5,087	
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	**15,840**	12,935	22	**4,742**	3,451	37
Amortization of acquisition-related intangible assets[1]	-778	-732		-202	-195	
Adjusted operating profit[1]	**15,062**	12,203	23	**4,540**	3,256	39
Financial items	-1,309	-1,157		-303	-236	
Adjusted profit before tax[1]	**13,753**	11,046	25	**4,237**	3,020	40
Adjusted tax[1]	-2,987	-1,490		-1,178	602	
Adjusted profit for the period[1]	**10,766**	9,556	13	**3,059**	3,622	-16

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

Adjusted Margins (%)						
Gross margin[1]	**29.5**	28.2		**31.7**	27.4	
EBITA margin[1]	**12.3**	10.9		**14.1**	11.1	
Operating margin[1]	**11.7**	10.3		**13.5**	10.5	
Financial net margin	-1.0	-1.0		-0.9	-0.8	
Profit margin[1]	**10.7**	9.3		**12.6**	9.7	
Tax[1]	-2.3	-1.3		-3.5	1.9	
Net margin[1]	**8.4**	8.0		**9.1**	11.6	

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

ADJUSTED EBITA BY BUSINESS AREA

SEKm	1912	1812	%	2019:4	2018:4	%
Personal Care	6,746	6,354	6	1,756	1,652	6
Consumer Tissue	5,321	3,331	60	1,767	840	110
Professional Hygiene	4,463	3,841	16	1,408	1,085	30
Other	-690	-591		-189	-126	
Total[1]	**15,840**	12,935	22	**4,742**	3,451	37

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

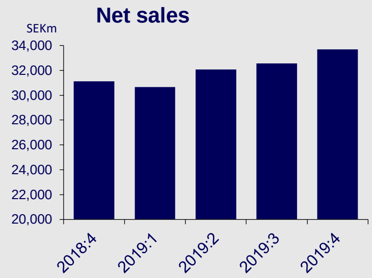
ADJUSTED OPERATING PROFIT BY BUSINESS AREA

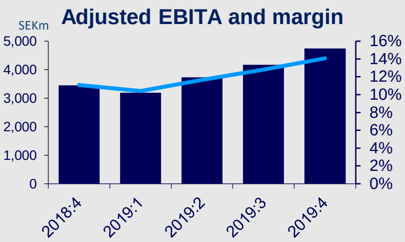
SEKm	1912	1812	%	2019:4	2018:4	%
Personal Care	6,014	5,663	6	1,567	1,470	7
Consumer Tissue	5,314	3,326	60	1,765	836	111
Professional Hygiene	4,424	3,805	16	1,398	1,076	30
Other	-690	-591		-190	-126	
Total[1]	**15,062**	12,203	23	**4,540**	3,256	39

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

OPERATING CASH FLOW BY BUSINESS AREA

SEKm	1912	1812	%	2019:4	2018:4	%
Personal Care	6,495	5,006	30	1,643	1,244	32
Consumer Tissue	4,870	2,388	104	1,857	1,503	24
Professional Hygiene	4,938	3,363	47	1,623	891	82
Other	-664	-857		-370	-393	
Total	**15,639**	9,900	58	**4,753**	3,245	46





Change in net sales (%)

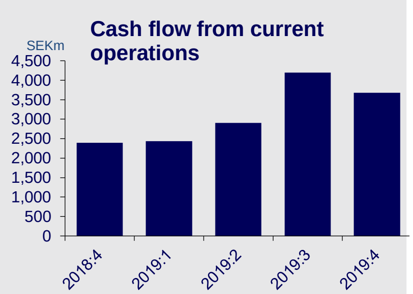
	1912 vs 1812	19:4 vs 18:4
Total	**8.8**	**8.3**
Price/mix	2.2	1.3
Volume	2.3	2.3
Currency	4.4	5.0
Acquisitions	0.1	0.0
Divestments	-0.2	-0.3

Change in adjusted EBITA (%)

	1912 vs 1812	19:4 vs 18:4
Total	**22**	**37**
Price/mix	19	9
Volume	8	6
Raw materials	6	43
Energy	0	3
Currency	6	8
Other	-17	-32

Excluding items affecting comparability

Excluding items affecting comparability



GROUP

NET SALES AND EARNINGS

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

Net sales increased 8.8% compared with the corresponding period a year ago to SEK 128,975m (118,500). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.5%, of which volume accounted for 2.3% and price/mix for 2.2%. Organic net sales increased 2.1% in mature markets and increased 9.1% in emerging markets. Emerging markets accounted for 37% of net sales. Exchange rate effects increased net sales by 4.4%. Acquisitions in Latin America increased net sales by 0.1%. The divestment of the partly owned company SCA Yildiz in Turkey reduced net sales by 0.2%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 22% (16% excluding currency translation effects, acquisitions and divestments) to SEK 15,840m (12,935). Higher prices, a better product mix, higher volumes, cost savings and lower raw material costs had a positive impact on earnings. Cost savings amounted to SEK 1,093m, of which SEK 637m was related to the Group-wide cost-savings program. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs.

Items affecting comparability amounted to SEK -713m (-1,444) and include costs of SEK -409m related to restructuring costs for the Group-wide cost-savings program. The divestment of the 50% stake in the partly owned company SCA Yildiz in Turkey resulted in a currency-related loss of SEK -149m that did not affect cash flow or shareholders' equity. Other costs negatively impacted items affecting comparability by SEK -155m.

Financial items increased to SEK -1,309m (-1,157). 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 25% (19% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 13,753m (11,046).

The tax expense, excluding effects of items affecting comparability, was SEK 2,987m (1,490).

Adjusted profit for the period increased 13% (7% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 10,766m (9,556).

Profit for the period increased 19% (13% excluding currency translation effects, acquisitions and divestments) to SEK 10,212m (8,552). Earnings per share were SEK 13.12 (11.23). The adjusted earnings per share were SEK 14.69 (13.32). Profit for the period in 2018 was positively affected by a decision in a tax case in Sweden that reduced the tax cost by approximately SEK 1.1bn.

The adjusted return on capital employed was 13.8% (12.0). The adjusted return on equity was 18.4% (18.0).

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

Net sales increased 8.3% compared with the corresponding period a year ago to SEK 33,686m (31,112). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.6%, of which volume accounted for 2.3% and price/mix for 1.3%. Organic net sales were positively impacted by a better price/mix and higher volumes in all business areas. Organic net sales increased 1.9% in mature markets and increased 6.6% in emerging markets. Emerging markets accounted for 37% of net sales. Exchange rate effects increased net sales by 5.0%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 0.3%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 37% (29% excluding currency translation effects and divestments) to SEK 4,742m (3,451). Earnings were positively impacted by higher prices, a better product mix, higher volumes, lower raw material and energy costs and cost savings amounting to SEK 206m, of which SEK 202m was related to the cost-savings program. The continuous cost savings were negatively impacted by higher costs for incentive programs and pensions in addition to distribution costs. Investments to increase growth and higher costs for incentive programs increased sales and marketing costs. Higher distribution costs and stock revaluations, due to lower raw material prices, had a negative impact on earnings.

Adjusted profit before tax increased 40% (31% excluding currency translation effects and divestments) and amounted to SEK 4,237m (3,020).

Profit for the period declined 16% (25% excluding currency translation effects and divestments) to SEK 3,046m (3,617). Earnings per share were SEK 3.87 (4.85). The adjusted earnings per share were SEK 4.10 (4.97). Profit for the period in 2018 was positively affected by a decision in a tax case in Sweden that reduced the tax cost by approximately SEK 1.1bn.

The adjusted return on capital employed was 16.4% (12.7). The adjusted return on equity was 19.9% (26.7).

CASH FLOW AND FINANCING

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

The operating cash surplus amounted to SEK 22,932m (18,570). The cash flow effect of changes in working capital was SEK 359m (-971). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -5,707m (-6,781). Operating cash flow before investments in operating assets through leases amounted to SEK 16,090m (9,900). Investments in operating assets through leases amounted to SEK -451m (0). Operating cash flow was SEK 15,639m (9,900).

Financial items increased to SEK -1,309m (-1,157). The increase was mainly related to higher interest and higher average net debt, primarily due to the new accounting standard for leases. Tax payments had a negative impact on cash flow of SEK -1,130m (-2,466). 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 77m (-626). Net cash flow totaled SEK 8,915m (1,307).

Net debt decreased by SEK 3,464m during the year and amounted to SEK 50,940m. Excluding pension liabilities, net debt amounted to SEK 47,915m. The new accounting standard for leases increased net debt by SEK 3,786m. Net cash flow reduced net debt by SEK 8,915m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, reduced net debt by SEK 487m. Exchange rate movements increased net debt by SEK 1,718m. Investments in non-operating assets through leases increased net debt by SEK 434m.

The debt/equity ratio was 0.81 (0.99). Excluding pension liabilities, the debt/equity ratio was 0.76 (0.92). The debt payment capacity was 38% (25). Net debt in relation to adjusted EBITDA amounted to 2.25 (2.96).

EQUITY

January–December 2019

The Group’s equity increased by SEK 7,902m during the period, to SEK 62,801m. Net profit for the period increased equity by SEK 10,212m. Dividends to shareholders of SEK 4,374m reduced equity. Equity increased net after tax by SEK 536m 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 447m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 1,954m. Other items increased equity by SEK 21m.

TAX

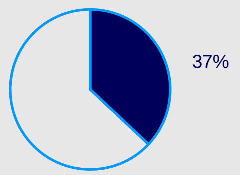
January–December 2019

A tax expense of SEK 2,987m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 21.7% for the period. The tax expense including items affecting comparability was SEK 2,828m, corresponding to a tax rate of 21.7% 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.

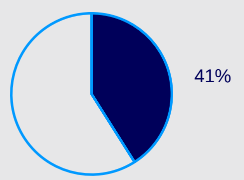
DIVIDEND

The Board of Directors proposes an increase in the dividend of 9% to SEK 6.25 (5.75) per share or SEK 4,390m (4,038). April 6, 2020 is proposed as the record date for the right to receive dividends.

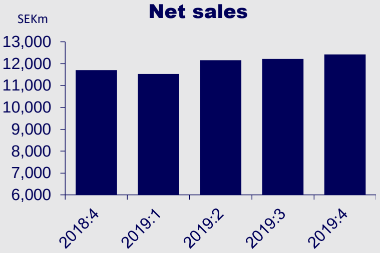
Share of Group, net sales 1912



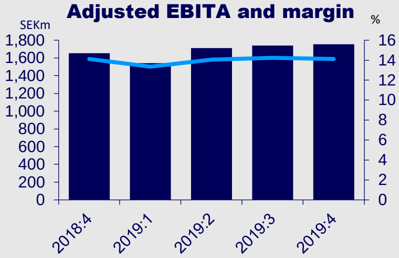
Share of Group, adjusted EBITA 1912



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1912 vs 1812	19:4 vs 18:4
Total	**6.6**	**6.2**
Price/mix	1.1	0.6
Volume	2.3	1.9
Currency	3.6	4.5
Acquisitions	0.1	0.0
Divestments	-0.5	-0.8

Change in adjusted EBITA (%)

	1912 vs 1812	19:4 vs 18:4
Total	**6**	**6**
Price/mix	7	1
Volume	8	6
Raw materials	-7	9
Energy	-1	0
Currency	5	7
Other	-6	-17

PERSONAL CARE

SEKm	1912	1812	%	2019:4	2018:4	%
Net sales	**48,340**	45,342	7	**12,425**	11,703	6
Adjusted EBITA*	**6,746**	6,354	6	**1,756**	1,652	6
Adjusted EBITA margin, %*	**14.0**	14.0		**14.1**	14.1	
Adjusted operating profit*	**6,014**	5,663	6	**1,567**	1,470	7
Adjusted operating margin, %*	**12.4**	12.5		**12.6**	12.6	
Adjusted return on capital employed, %*	**15.2**	15.3		**15.6**	15.8	
Operating cash flow	**6,495**	5,006		**1,643**	1,244	

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

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

Net sales increased 6.6% to SEK 48,340m (45,342). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.4%, of which volume accounted for 2.3% and price/mix for 1.1%. Organic net sales in mature markets increased 1.6%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 7.0%. Acquisitions in Latin America increased net sales by 0.1%. Exchange rate effects increased net sales by 3.6%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 0.5%.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 5.0%. Growth was related to Western Europe, North America and emerging markets. In Medical Solutions, organic net sales increased 0.5%, mainly related to emerging markets and Western Europe. For Baby Care, organic net sales decreased 1.2% related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 9.4%, related to Latin America, Western Europe and Asia.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 6% (1% excluding currency translation effects, acquisitions and divestments) to SEK 6,746m (6,354). The increase was mainly related to higher prices, a better mix, higher volumes and cost savings. Higher raw material and energy costs negatively impacted profit by SEK -509m, which corresponds to a negative impact on the adjusted EBITA margin of -1.1 percentage points. The significantly higher raw material costs were mainly related to pulp and a negative currency transaction effect. Higher distribution costs also negatively impacted earnings. Investments to increase growth and costs for implementation of the Medical Device Regulation resulted in higher sales and marketing costs.

The operating cash surplus amounted to SEK 8,785m (7,821).

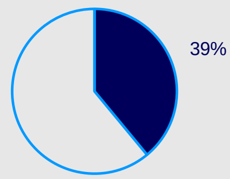
Fourth quarter of 2019 compared with the corresponding period a year ago

Net sales increased 6.2% to SEK 12,425m (11,703). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.5%, of which volume accounted for 1.9% and price/mix for 0.6%. Organic net sales in mature markets increased 0.1%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 6.9%. Exchange rate effects increased net sales by 4.5%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 0.8%.

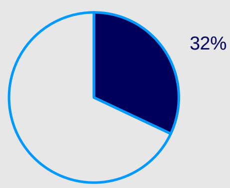
For Incontinence Products, with the globally leading TENA brand, organic net sales increased 4.6%. Growth was related to Western Europe and emerging markets. In Medical Solutions, organic net sales decreased 0.1%, mainly related to North America. For Baby Care, organic net sales decreased 3.4% related to Russia, Western Europe and Latin America. For Feminine Care, organic net sales increased 8.0%. The increase was related to Latin America and Western Europe.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 6% (declined 2% excluding currency translation effects and divestments) to SEK 1,756m (1,652). The increase was mainly related to higher prices, a better mix, higher volumes, lower raw material costs and cost savings. Higher distribution costs negatively impacted earnings. Investments to increase growth and costs for implementation of the Medical Device Regulation resulted in higher sales and marketing costs.

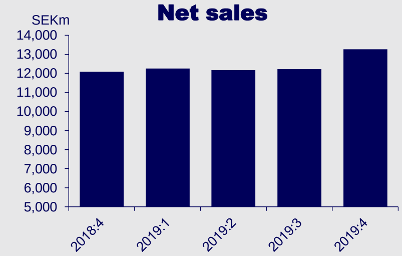
Share of Group, net sales
1912



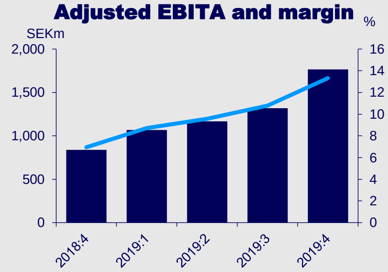
Share of Group, adjusted EBITA
1912



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1912 vs 1812	19:4 vs 18:4
Total	**10.6**	**9.7**
Price/mix	3.2	1.3
Volume	2.9	3.6
Currency	4.4	4.8
Acquisitions	0.1	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1912 vs 1812	19:4 vs 18:4
Total	**60**	**110**
Price/mix	44	19
Volume	12	12
Raw materials	24	116
Energy	1	12
Currency	8	9
Other	-29	-58

CONSUMER TISSUE

SEKm	1912	1812	%	2019:4	2018:4	%
Net sales	**49,904**	45,125	11	**13,269**	12,094	10
Adjusted EBITA*	**5,321**	3,331	60	**1,767**	840	110
Adjusted EBITA margin, %*	**10.7**	7.4		**13.3**	6.9	
Adjusted operating profit*	**5,314**	3,326	60	**1,765**	836	111
Adjusted operating margin, %*	**10.6**	7.4		**13.3**	6.9	
Adjusted return on capital employed, %*	**11.2**	7.4		**14.8**	7.4	
Operating cash flow	**4,870**	2,388		**1,857**	1,503	

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

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

Net sales increased 10.6% to SEK 49,904m (45,125). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 6.1%, of which volume accounted for 2.9% and price/mix for 3.2%. Excluding lower sales of mother reels resulting from production closures within the scope of Tissue Roadmap, organic net sales increased 6.6%. Organic net sales increased 2.6% in mature markets. In emerging markets, which accounted for 47% of net sales, organic net sales increased by 10.7%. Acquisitions in Latin America increased net sales by 0.1%. Exchange rate effects increased net sales by 4.4%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 60% (52% excluding currency translation effects and acquisitions) to SEK 5,321m (3,331). The increase was mainly due to higher prices, a better mix, higher volumes, lower raw material and energy costs, and cost savings. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs.

The operating cash surplus totaled SEK 8,107m (5,612).

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

Net sales increased 9.7% to SEK 13,269m (12,094). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.9%. Volumes increased by 3.6%, mainly related to Asia and Latin America. Price/mix increased 1.3%, primarily related to Europe and Latin America. Organic net sales increased 3.6% in mature markets. In emerging markets, which accounted for 48% of net sales, organic net sales increased by 6.5%. Exchange rate effects increased net sales by 4.8%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 110% (101% excluding currency translation effects) to SEK 1,767m (840). A better price/mix, higher volumes, lower raw material and energy costs and cost savings had a positive impact on earnings. Stock revaluations, due to lower raw material prices had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs.

PROFESSIONAL HYGIENE

SEKm	1912	1812	%	2019:4	2018:4	%
Net sales	**30,731**	28,017	10	**7,991**	7,322	9
Adjusted EBITA*	**4,463**	3,841	16	**1,408**	1,085	30
Adjusted EBITA margin, %*	**14.5**	13.7		**17.6**	14.8	
Adjusted operating profit*	**4,424**	3,805	16	**1,398**	1,076	30
Adjusted operating margin, %*	**14.4**	13.6		**17.5**	14.7	
Adjusted return on capital employed, %*	**18.9**	18.1		**23.8**	20.0	
Operating cash flow	**4,938**	3,363		**1,623**	891	

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

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

Net sales increased 9.7% to SEK 30,731m (28,017). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.6%, of which volume accounted for 1.5% and price/mix for 2.1%. Organic net sales increased 2.2% in mature markets. In emerging markets, which accounted for 20% of net sales, organic net sales increased 9.9%. Exchange rate effects increased net sales by 6.1%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 16% (10% excluding currency translation effects) to SEK 4,463m (3,841). Earnings were positively impacted by higher prices, a better mix, higher volumes, lower raw material costs and cost savings. Stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs.

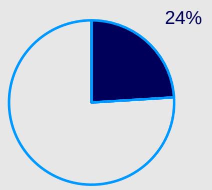
The operating cash surplus was SEK 6,589m (5,630).

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

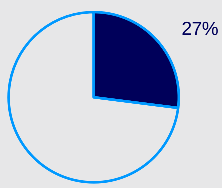
Net sales increased 9.1% to SEK 7,991m (7,322). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.0%. Volumes increased 0.7%, mainly related to Europe, Latin America and North America. Price/mix increased by 2.3%, mainly related to Europe and North America. Organic net sales increased 2.3% in mature markets. In emerging markets, which accounted for 21% of net sales, organic net sales increased 6.1%. Exchange rate effects increased net sales by 6.1%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 30% (22% excluding currency translation effects) to SEK 1,408m (1,085). Earnings were positively impacted by higher prices, a better mix, higher volumes, lower raw material and energy costs and cost savings. Stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs. A one-off effect related to reduced pension liabilities in the US had a positive effect on earnings of approximately SEK 70m.

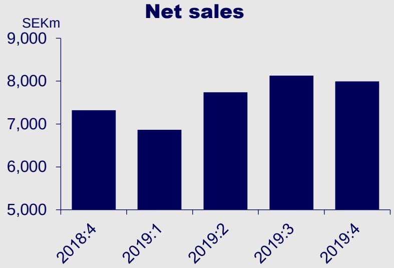
Share of Group, net sales
1912



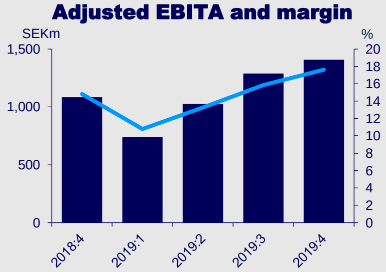
Share of Group, adjusted EBITA
1912



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1912 vs 1812	19:4 vs 18:4
Total	**9.7**	**9.1**
Price/mix	2.1	2.3
Volume	1.5	0.7
Currency	6.1	6.1
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	1912 vs 1812	19:4 vs 18:4
Total	**16**	**30**
Price/mix	13	12
Volume	4	1
Raw materials	11	34
Energy	0	1
Currency	6	8
Other	-18	-26

DISTRIBUTION OF SHARES

December 31, 2019	Class A	Class B	Total
Registered number of shares	63,934,642	638,407,847	702,342,489

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

FUTURE REPORTS

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

ANNUAL GENERAL MEETING

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

INVITATION TO PRESS CONFERENCE OF YEAR-END REPORT FOR 2019

Media and analysts are invited to a press conference at which President and CEO Magnus Groth will present this Year-end Report.

Press conference
Date: Wednesday, January 22, 2020
Time: 9:00 a.m. CET
Location: Essity's headquarters, Waterfront Building, Klarabergsviadukten 63, Stockholm, Sweden
Link to Web presentation: https://essity.videosync.fi/2020-01-22-q4
The press conference will be webcast at www.essity.com. To participate by telephone, call: +44 (0)207 192 80 00, +1 631 510 74 95 or +46 (0)8 506 921 80. Please call well in advance of the start of the conference. Specify "Essity" or conference ID no. 3561699.

Stockholm, January 22, 2020

Essity Aktiebolag (publ)

Magnus Groth

President and CEO

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NB:

CONDENSED STATEMENT OF PROFIT OR LOSS

SEKm	2019:4	2018:4	2019:3	1912	1812
Net sales	**33,686**	31,112	32,565	**128,975**	118,500
Cost of goods sold[1,2]	-22,997	-22,574	-22,793	-90,876	-85,058
Items affecting comparability[1]	-11	71	23	-243	-1,437
Gross profit	**10,678**	8,609	9,795	**37,856**	32,005
Sales, general and administration[1]	-5,986	-5,106	-5,594	-22,319	-20,570
Items affecting comparability[2]	9	-47	-224	-470	62
Share of profits of associates and joint ventures	39	19	-2	60	63
Operating profit before amortization of acquisition-related intangible assets	**4,740**	3,475	3,975	**15,127**	11,560
Amortization of acquisition-related intangible assets[1]	-202	-195	-196	-778	-732
Items affecting comparability[2]	0	-64	0	0	-69
Operating profit	**4,538**	3,216	3,779	**14,349**	10,759
Financial items	-303	-236	-320	-1,309	-1,157
Profit before tax	**4,235**	2,980	3,459	**13,040**	9,602
Tax	-1,189	637	-723	-2,828	-1,050
Profit for the period	**3,046**	3,617	2,736	**10,212**	8,552
Earnings attributable to:					
Owners of the parent	2,716	3,403	2,477	9,216	7,886
Non-controlling interests	330	214	259	996	666
Average no. of shares before dilution, millions	702.3	702.3	702.3	702.3	702.3
Average no. of shares after dilution, millions	702.3	702.3	702.3	702.3	702.3
Earnings per share, SEK - owners of the parent					
- before dilution effects	3.87	4.85	3.53	13.12	11.23
- after dilution effects	3.87	4.85	3.53	13.12	11.23
[1]Of which, depreciation	-1,925	-1,611	-1,879	-7,477	-6,175
[2]Of which, impairment	-58	23	72	-52	-533
Gross margin	**31.7**	27.7	30.1	**29.4**	27.0
EBITA margin	**14.1**	11.2	12.2	**11.7**	9.8
Operating margin	13.5	10.3	11.6	11.1	9.1
Financial net margin	-0.9	-0.8	-1.0	-1.0	-1.0
Profit margin	**12.6**	9.5	10.6	**10.1**	8.1
Tax	-3.5	2.0	-2.2	-2.2	-0.9
Net margin	**9.1**	11.5	8.4	**7.9**	7.2
Excluding items affecting comparability:					
Gross margin	**31.7**	27.4	30.0	**29.5**	28.2
EBITA margin	**14.1**	11.1	12.8	**12.3**	10.9
Operating margin	13.5	10.5	12.2	11.7	10.3
Financial net margin	-0.9	-0.8	-1.0	-1.0	-1.0
Profit margin	**12.6**	9.7	11.2	**10.7**	9.3
Tax	-3.5	1.9	-2.2	-2.3	-1.3
Net margin	**9.1**	11.6	9.0	**8.4**	8.0

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

SEKm	2019:4	2018:4	2019:3	1912	1812
Profit for the period	**3,046**	3,617	2,736	**10,212**	8,552
Other comprehensive income for the period					
Items that may not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	2,486	-2,196	-1,169	482	-1,036
Measured at fair value through other comprehensive income	0	-4	1	6	-5
Income tax attributable to components of other comprehensive income	-392	459	222	52	176
	2,094	-1,741	-946	540	-865
Items that have been or may be reclassified subsequently to the income statement					
Cash flow hedges	-267	-303	58	-613	93
Translation differences in foreign operations	-2,359	-559	1,967	2,095	2,080
Gains/losses from hedges of net investments in foreign operations	189	300	-146	-168	-122
Other comprehensive income from associated companies	1	13	-5	-14	23
Income tax attributable to components of other comprehensive income	25	10	16	179	4
	-2,411	-539	1,890	1,479	2,078
Other comprehensive income for the period, net of tax	**-317**	-2,280	944	**2,019**	1,213
Total comprehensive income for the period	**2,729**	1,337	3,680	**12,231**	9,765
Total comprehensive income attributable to:					
Owners of the parent	2,687	1,166	3,213	11,006	8,893
Non-controlling interests	42	171	467	1,225	872

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	1912	1812
Attributable to owners of the parent		
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	11,006	8,893
Dividend	-4,038	-4,038
Private placement to non-controlling interest	2	3
Transferred to cost of hedged investment	14	1
Closing balance	**54,125**	47,141
Non-controlling interests		
Opening balance, January 1	7,758	7,281
Total comprehensive income for the period	1,225	872
Disposal of non-controlling interest	27	-
Dividend	-336	-397
Private placement to non-controlling interest	2	2
Closing balance	**8,676**	7,758
Total equity, closing balance	**62,801**	54,899

CONSOLIDATED OPERATING CASH FLOW STATEMENT

The comparative periods for full-year 2018 have been restated

SEKm	1912	1812
Operating cash surplus	22,932	18,570
Change in working capital	359	-971
Capital expenditures non current assets, net	-5,707	-6,781
Restructuring costs, etc.	-1,494	-918
Operating cash flow before Investments in operating assets through leases	**16,090**	9,900
Investments in operating assets through leases	-451	0
Operating cash flow	**15,639**	9,900
Financial items	-1,309	-1,157
Income taxes paid	-1,130	-2,466
Other	8	86
Cash flow from current operations	**13,208**	6,363
Acquisitions	-143	-694
Divestments	220	68
Cash flow before dividend	**13,285**	5,737
Private placement to non-controlling interest	4	5
Dividend to non-controlling interests	-336	-397
Dividend	-4,038	-4,038
Net cash flow	**8,915**	1,307
Net debt at the start of the period	**-54,404**	-52,467
Changed opening balance for net debt due to IFRS 16 Leases	-3,786	0
Net cash flow	8,915	1,307
Remeasurement to equity	487	-1,042
Investments in non-operating assets through leases	-434	0
Translation differences	-1,718	-2,202
Net debt at the end of the period	**-50,940**	-54,404
Debt/equity ratio	**0.81**	0.99
Debt payment capacity, %	**38**	25
Net debt / EBITDA	**2.33**	3.11
Net debt / Adjusted EBITDA	**2.25**	2.96

Comments on the consolidated operating cash flow statement

As of 2019, strategic capital expenditures are recognized together with current capital expenditures and included in Investments in non-current assets, net. Previously, strategic capital expenditures were recognized under cash flow from current operations together with acquisitions and divestments. The effect of the restatement of comparative periods entailed a decrease in Operating cash flow and Cash flow from current operations of SEK -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 full-year 2018 have been restated

SEKm	1912	1812
Operating activities		
Operating profit	14,349	10,759
Adjustment for non-cash items[1]	8,193	7,562
Interest paid	-1,010	-818
Interest received	105	85
Other financial items	-420	-408
Change in liabilities relating to restructuring programs, etc.	-1,095	-583
Paid tax	-1,130	-2,466
Cash flow from operating activities		
before changes in working capital	**18,992**	14,131
Cash flow from changes in working capital		
Change in inventories	-194	-1,017
Change in operating receivables	-1,949	-344
Change in operating liabilities	2,502	390
Cash flow from operating activities	**19,351**	13,160
Investing activities		
Company acquisitions	-143	-461
Divestments	5	68
Investments in property, plant and equipment and intangible assets	-5,908	-6,882
Sale of property, plant and equipment	239	134
Loans granted to external parties	-62	0
Repayment of loans from external parties	0	178
Paid interest capitalized in property, plant and equipment and intangible assets	-39	-24
Cash flow from investing activities	**-5,908**	-6,987
Financing activities		
Private placement to non-controlling interests	4	5
Dividend	-4,038	-4,038
Loans raised	2,448	4,386
Amortization of debt	-11,708	-7,295
Dividend to non-controlling interests	-336	-397
Cash flow from financing activities	**-13,630**	-7,339
Cash flow for the period	**-187**	-1,166
Cash and cash equivalents at the beginning of the period	3,008	4,107
Exchange -differences in cash and cash equivalents	107	67
Cash and cash equivalents at the end of the period	**2,928**	3,008
Cash flow from operating activities per share, SEK	27.55	18.74

CONSOLIDATED CASH FLOW STATEMENT (cont.)

SEKm	1912	1812
Reconciliation with consolidated operating cash flow statement		
Cash flow for the period	**-187**	-1,166
Amortization of debt	11,708	7,295
Loans raised	-2,448	-4,386
Loans granted to external parties	62	0
Repayment of loans from external parties	0	-178
Investment through financial lease	-451	-8
Net debt in acquired and divested operations	215	-234
Accrued interest	17	-16
Other	-1	0
Net cash flow according to consolidated operating cash flow statement	**8,915**	1,307
[1] Adjustment for non-cash items		
Depreciation/amortization and impairment of non-current assets	*7,529*	*6,709*
Gain/loss on asset sales and swaps	*24*	*35*
Change, provision related to antitrust cases	*0*	*95*
Gain/loss on divestments	*160*	*-69*
Unpaid relating to efficiency program	*128*	*669*
Change, one-time foreign tax on non-current assets	*0*	*-288*
Share of profits of associated companies, items affecting comparability (Asaleo Care Ltd)	*0*	*278*
Revaluation effect of previously owned holding upon acquisition	*0*	*-225*
Other	*352*	*358*
Total	*8,193*	*7,562*

Comments on the consolidated cash flow statement

Until 2018, payments were recognized for pension plans with a surplus in cash flow from investing activities and payments for pension plans with a deficit in cash flow from Financing activities. From 2019, all payments for pensions are recognized in cash flow from Financing activities given that Essity has a net pension liability. The change means that the comparative period, full-year 2018, was restated, which is why cash flow from Investing activities was changed by SEK +439m and cash flow from Financing activities was changed by SEK -439m compared with the figures presented in the year-end report for 2018. Cash flow from operating activities is unchanged for the periods.

CONSOLIDATED BALANCE SHEET

SEKm	December 31, 2019	December 31, 2018
Assets		
Goodwill	34,581	33,553
Other intangible assets	21,182	21,475
Buildings, land, machinery and equipment	56,900	51,673
Participation in joint ventures and associates	865	777
Shares and participation	8	29
Surplus in funded pension plans	2,841	1,117
Non-current financial assets	694	634
Deferred tax assets	2,539	2,158
Other non-current assets	704	705
Total non-current assets	**120,314**	112,121
Inventories	15,764	15,234
Trade receivables	19,864	18,687
Current tax assets	745	2,126
Other current receivables	2,113	2,599
Current financial assets	525	422
Non-current assets held for sale	42	69
Cash and cash equivalents	2,928	3,008
Total current assets	**41,981**	42,145
Total assets	**162,295**	154,266
Equity		
Share capital	2,350	2,350
Reserves	6,284	5,003
Retained earnings	45,491	39,788
Attributable to owner of the Parent	**54,125**	47,141
Non-controlling interests	8,676	7,758
Total equity	**62,801**	54,899
Liabilities		
Non-current financial liabilities	43,079	43,500
Provisions for pensions	5,866	5,258
Deferred tax liabilities	6,545	7,272
Other non-current provisions	541	1,694
Other non-current liabilities	183	71
Total non-current liabilities	**56,214**	57,795
Current financial liabilities	8,983	10,827
Trade payables	15,802	15,911
Current tax liabilities	2,432	570
Current provisions	1,065	1,472
Other current liabilities	14,998	12,792
Total current liabilities	**43,280**	41,572
Total liabilities	**99,494**	99,367
Total equity and liabilities	**162,295**	154,266

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	December 31, 2019	December 31, 2018
Debt/equity ratio	0.81	0.99
Equity/assets ratio	33%	31%
Equity	62,801	54,899
Equity per share	89	78
Return on equity	17.4%	16.1%
Return on equity excluding items affecting comparability	18.4%	18.0%
Capital employed	113,741	109,303
- of which working capital	6,782	7,568
Return on capital employed*	13.2%	10.8%
Return on capital employed* excluding items affecting comparability	13.8%	12.0%
Net debt	50,940	54,404
Provisions for restructuring costs are included in the balance sheet as follows		
-Other non-current provisions	184	118
-Other current provisions	603	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	1912	1812	2019:4	2019:3	2019:2	2019:1	2018:4	2018:3
Personal Care	48,340	45,342	12,425	12,216	12,164	11,535	11,703	11,408
Consumer Tissue	49,904	45,125	13,269	12,220	12,167	12,248	12,094	10,912
Professional Hygiene	30,731	28,017	7,991	8,131	7,742	6,867	7,322	7,309
Other	0	16	1	-2	-5	6	-7	18
Total net sales	**128,975**	118,500	**33,686**	32,565	32,068	30,656	31,112	29,647

ADJUSTED EBITA (business area reporting)

SEKm	1912	1812	2019:4	2019:3	2019:2	2019:1	2018:4	2018:3
Personal Care	6,746	6,354	1,756	1,739	1,711	1,540	1,652	1,565
Consumer Tissue	5,321	3,331	1,767	1,319	1,166	1,069	840	635
Professional Hygiene	4,463	3,841	1,408	1,288	1,026	741	1,085	970
Other	-690	-591	-189	-170	-171	-160	-126	-154
Total adjusted EBITA	**15,840**	12,935	**4,742**	4,176	3,732	3,190	3,451	3,016

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	1912	1812	2019:4	2019:3	2019:2	2019:1	2018:4	2018:3
Personal Care	6,014	5,663	1,567	1,554	1,529	1,364	1,470	1,387
Consumer Tissue	5,314	3,326	1,765	1,317	1,164	1,068	836	635
Professional Hygiene	4,424	3,805	1,398	1,278	1,016	732	1,076	960
Other	-690	-591	-190	-169	-170	-161	-126	-153
Total adjusted operating profit[1]	**15,062**	12,203	**4,540**	3,980	3,539	3,003	3,256	2,829
Financial items	-1,309	-1,157	-303	-320	-344	-342	-236	-332
Profit before tax[1]	**13,753**	11,046	**4,237**	3,660	3,195	2,661	3,020	2,497
Tax	-2,987	-1,490	-1,178	-730	-482	-597	602	-670
Net profit for the period[2]	**10,766**	9,556	**3,059**	2,930	2,713	2,064	3,622	1,827
[1]Excluding items affecting comparability before tax amounting to:	-713	-1,444	-2	-201	-322	-188	-40	-1,016
[2]Excluding items affecting comparability after tax amounting to:	-554	-1,004	-13	-194	-212	-135	-5	-749

ADJUSTED EBITA MARGIN (business area reporting)

%	1912	1812	2019:4	2019:3	2019:2	2019:1	2018:4	2018:3
Personal Care	14.0	14.0	14.1	14.2	14.1	13.4	14.1	13.7
Consumer Tissue	10.7	7.4	13.3	10.8	9.6	8.7	6.9	5.8
Professional Hygiene	14.5	13.7	17.6	15.8	13.3	10.8	14.8	13.3

STATEMENT OF PROFIT OR LOSS

SEKm	2019:4	2019:3	2019:2	2019:1	2018:4
Net sales	**33,686**	32,565	32,068	30,656	31,112
Cost of goods sold	-22,997	-22,793	-22,779	-22,307	-22,574
Items affecting comparability	-11	23	-156	-99	71
Gross profit	**10,678**	9,795	9,133	8,250	8,609
Sales, general and administration	-5,986	-5,594	-5,553	-5,186	-5,106
Items affecting comparability	9	-224	-166	-89	-47
Share of profits of associates and joint ventures	39	-2	-4	27	19
EBITA	**4,740**	3,975	3,410	3,002	3,475
Amortization of acquisition-related intangible assets	-202	-196	-193	-187	-195
Items affecting comparability	0	0	0	0	-64
Operating profit	**4,538**	3,779	3,217	2,815	3,216
Financial items	-303	-320	-344	-342	-236
Profit before tax	**4,235**	3,459	2,873	2,473	2,980
Taxes	-1,189	-723	-372	-544	637
Net profit for the period	**3,046**	2,736	2,501	1,929	3,617

INCOME STATEMENT PARENT COMPANY

SEKm	1912	1812
Administrative expenses	-663	-738
Other operating income	209	192
Operating loss	**-454**	-546
Financial items	4,552	17,648
Profit before tax	**4,098**	17,102
Appropriations and tax on profit for the period	24	-940
Profit for the period	**4,122**	16,162

BALANCE SHEET PARENT COMPANY

SEKm	December 31, 2019	December 31, 2018
Intangible fixed assets	0	0
Tangible fixed assets	16	5
Financial fixed assets	176,352	175,447
Total fixed assets	176,368	175,452
Total current assets	1,794	3,041
Total assets	**178,162**	178,493
Restricted equity	2,350	2,350
Unrestricted equity	87,942	87,859
Total equity	90,292	90,209
Untaxed reserves	4	1
Provisions	877	879
Non-current liabilities	36,386	39,226
Current liabilities	50,603	48,178
Total equity, provisions and liabilities	**178,162**	178,493

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, 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 onerous contracts were recognized in the year-end accounts for 2018 as non-current and current provisions. This practical solution was applied as a substitute for an impairment test upon transition to IFRS 16. An impairment test will subsequently be applied by the company. An incremental borrowing rate has been set for each currency. The average incremental borrowing rate on January 1, 2019 was approximately 3%. The transition does not have any impact on equity.

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

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

SEKm	Properties	Vehicles	Other	Total	Lease liabilities
Opening balance, Jan 1, 2019 as stated in AR 2018	-	-	-	3,694	3,684
Adjusted opening balance				87	102
Adjusted opening balance	**3,357**	**410**	**14**	**3,781**	**3,786**
Additional rights of use, net	716	159	10	885	885
Leases, divestments	-46	-	-	-46	-46
Depreciation	-656	-221	-7	-884	-
Interest expenses	-	-	-	-	110
Payments	-	-	-	-	-948
Translation differences	75	10	0	85	85
Value at end of period	3,446	358	17	3,821	3,872

Lease liabilities consist of:	
Short-term component	851
Long-term component	3,021

During the period, SEK 255m was recognized relating to costs for short-term leases, leases of low-value assets and variable lease payments.

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

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

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

IFRS 16 Leases. Accounting principles applicable as of January 2019

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

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

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

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

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

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

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

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

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

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

The lease liability is recognized in the balance sheet under the headings non-current financial liabilities and current financial liabilities. Lease liabilities due within 12 months are classified as current liabilities, while those due after 12 months are classified as non-current liabilities. The lease liability is recognized at amortized cost in accordance with the effective interest method. The liability is remeasured when future payments are changed through an index or in another manner, for example if a new assessment is made of future residual value obligations or the exercise of purchase, renewal or termination options. When the lease liability is remeasured in accordance with the above, a corresponding adjustment is made to the value of the right-of-use asset. Lease payments are allocated between interest expense and amortization of the outstanding lease liability.

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

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

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

2 RISKS AND UNCERTAINTIES

Essity's risk exposure and risk management are described on pages 33-38 of the 2018 Annual Report for Essity. No significant changes have taken place that have affected the reported risks.

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

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

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

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

3 FINANCIAL INSTRUMENTS PER CATEGORY

Distribution by level for measurement at fair value

SEKm	Carrying amount in the balance sheet	Measured at fair value through profit or loss	Derivatives used for hedge accounting	Measured at fair value through OCI	Financial liabilities measured at amortized cost	Of which fair value by level[1]	
December 31, 2019						1	2
Derivatives	971	325	646	-	-	-	971
Non-current financial assets	96	-	-	96	-	96	-
Total assets	**1,067**	**325**	**646**	**96**	**0**	**96**	**971**
Derivatives	991	759	232	-	-	-	991
Financial liabilities							
Current financial liabilities	8,243	-	-		8,243	-	-
Non-current financial liabilities	42,984	13,167	-	-	29,817	-	13,167
Total liabilities	**52,218**	**13,926**	**232**	**-**	**38,060**	**-**	**14,158**
December 31, 2018							
Derivatives	1,255	294	961	-	-	-	1,255
Non-current financial assets	87	-	-	87	-	87	-
Total assets	1,342	294	961	87	0	87	1,255
Derivatives	443	399	44	-	-	-	443
Financial liabilities							
Current financial liabilities	10,300	905	-	-	9,395	-	905
Non-current financial liabilities	43,442	16,083	-	-	27,359	-	16,083
Total liabilities	54,185	17,387	44	-	36,754	-	17,431

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

The total fair value of the above financial liabilities, excluding lease liabilities, is SEK 49,106m (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	1912	1812
Total assets	162,295	154,266
-Financial receivables	-6,988	-5,181
-Non-current non-interest bearing liabilities	-7,169	-9,037
-Current non-interest bearing liabilities	-34,397	-30,745
Capital employed	113,741	109,303

SEKm	2019:4	2019:3	2019:2	2019:1	2018:4
Personal Care	44,268	45,630	45,272	45,033	41,768
Consumer Tissue	47,345	48,421	47,821	48,380	44,915
Professional Hygiene	22,996	24,332	24,245	24,403	22,153
Other	-868	-447	-1,176	-1,642	467
Capital employed	113,741	117,936	116,162	116,174	109,303

Working capital

SEKm	1912	1812
Inventories	15,764	15,234
Accounts receivables	19,864	18,687
Other current receivables	2,113	2,599
Accounts payables	-15,802	-15,911
Other current liabilities	-14,998	-12,792
Adjustments	-159	-249
Working capital	6,782	7,568

Net debt

SEKm	1912	1812
Surplus in funded pension plans	2,841	1,117
Non-current financial assets	694	634
Current financial assets	525	422
Cash and cash equivalents	2,928	3,008
Financial receivables	6,988	5,181
Non-current financial liabilities	43,079	43,500
Provisions for pensions	5,866	5,258
Current financial liabilities	8,983	10,827
Financial liabilities	57,928	59,585
Net debt	50,940	54,404

EBITDA

SEKm	1912	1812	2019:4	2018:4
Operating profit	14,349	10,759	4,538	3,216
-Amortization of acquisition-related intangible assets	778	732	202	195
-Depreciations	5,815	5,443	1,499	1,416
-Depreciations Right-of-use asset	884	0	224	0
-Items affecting comparability, depreciations	-27	445	-17	-96
-Impairment	79	19	75	9
-Items affecting comparability, impairment of acquisition-related intangible assets	0	69	0	64
EBITDA	21,878	17,467	6,521	4,804
-Items affecting comparability excluding depreciation and impairment	740	930	19	72
Adjusted EBITDA	22,618	18,397	6,540	4,876

EBITA

SEKm	1912	1812	2019:4	2018:4
Operating profit	14,349	10,759	4,538	3,216
-Amortization of acquisition-related intangible assets	778	732	202	195
-Operating profit before amortization of acquisition-related intangible assets/EBITA	15,127	11,560	4,740	3,475
EBITA margin (%)	11.7	9.8	14.1	11.2
-Items affecting comparability cost of goods sold	243	1,437	11	-71
-Items affecting comparability, sales and administration costs	470	-62	-9	47
Adjusted EBITA	15,840	12,935	4,742	3,451
Adjusted EBITA margin (%)	12.3	10.9	14.1	11.1

Operating cash flow

SEKm	1912	1812	2019:4	2018:4
Personal Care				
Operating cash surplus	8,785	7,821	2,285	2,063
Change in working capital	401	-410	161	-6
Capital expenditures non-current assets, net	-1,866	-2,134	-718	-814
Restructuring costs, etc.	-644	-271	-58	1
Operating cash flow before investments in operating assets through leases	6,676	5,006	1,670	1,244
Investment in operating assets through leases	-181	0	-27	0
Operating cash flow	6,495	5,006	1,643	1,244
Consumer Tissue				
Operating cash surplus	8,107	5,612	2,557	1,441
Change in working capital	-553	94	187	920
Capital expenditures non-current assets, net	-2,239	-3,073	-734	-789
Restructuring costs, etc.	-251	-245	-103	-69
Operating cash flow before investments in operating assets through leases	5,064	2,388	1,907	1,503
Investment in operating assets through leases	-194	0	-50	0
Operating cash flow	4,870	2,388	1,857	1,503
Professional Hygiene				
Operating cash surplus	6,589	5,630	1,966	1,553
Change in working capital	438	-565	261	-6
Capital expenditures non-current assets, net	-1,402	-1,337	-410	-507
Restructuring costs, etc.	-603	-365	-153	-149
Operating cash flow before investments in operating assets through leases	5,022	3,363	1,664	891
Investment in operating assets through leases	-84	0	-41	0
Operating cash flow	4,938	3,363	1,623	891

Organic net sales

SEKm	1912	2019:4
Personal Care		
Organic net sales	1,549	287
Currency effect[1]	1,623	523
Acquisition/Disposals	-175	-89
Reported change	2,997	721
Consumer Tissue		
Organic net sales	2,754	593
Currency effect[1]	1,972	582
Acquisition/Disposals	53	0
Reported change	4,779	1,175
Professional Hygiene		
Organic net sales	1,010	222
Currency effect[1]	1,703	446
Acquisition/Disposals	1	0
Reported change	2,714	668
Essity		
Organic net sales	5,297	1,111
Currency effect[1]	5,299	1,552
Acquisition/Disposals	-121	-89
Reported change	10,475	2,574

[1]Consists only of currency translation effects

5 Supplementary disclosure

Essity conducted sales in approximately 150 countries and had approximately 47,000 employees in 2019.

Net sales by category

Personal Care	37%
of which	
Incontinence Products	17%
Medical Solutions	7%
Baby Care	7%
Feminine Care	6%
Consumer Tissue	39%
Professional Hygiene	24%

Net sales in 2019 by region

Europe	55%
Asia	16%
North America	14%
Latin America	13%
Other	2%

Net sales in 2019 by distribution channel

Retail	58%
Business-to-business	24%
Healthcare sector	18%