

Year-end Report 2022



Essity Aktiebolag (publ)



essity

JANUARY 1 – DECEMBER 31, 2022

(compared with the corresponding period a year ago)

- Net sales increased 28.2% to SEK 156,173m (121,867)
- Sales growth, including organic sales growth and acquisitions, amounted to 17.7%, of which volume accounted for 1.7%, price/mix for 14.0% and acquisitions for 2.0%.
- Acquisition of Legacy Converting Inc, Knix Wear Inc and Modibodi
- Significant price increases of in average 13.3% were implemented to mitigate the significantly higher costs for raw materials, energy and distribution.
- Assets in Russia were impaired by approximately SEK 1.7bn. Work is ongoing to exit the Russian market.
- Operating profit before amortization of acquisition-related intangible assets (EBITA) amounted to SEK 10,887m (14,051)
- Adjusted EBITA amounted to SEK 13,058m (13,680) and the adjusted EBITA margin amounted to 8.4% (11.2). In the fourth quarter of 2022, adjusted EBITA increased 33% compared with the corresponding period a year ago to SEK 4,084m (3,077) and the adjusted EBITA margin increased to 9.3% (9.0).
- Return on capital employed amounted to 8.1% (12.3). Adjusted return on capital employed was 9.7% (12.0).
- Profit for the period was SEK 6,064m (9,810)
- Earnings per share were SEK 7.93 (12.27) and adjusted earnings per share were SEK 12.28 (12.50)
- Cash flow from current operations amounted to SEK 5,380m (6,894)
- The Board of Directors proposes an increase in the dividend of 4% to SEK 7.25 (7.00) per share

EARNINGS TREND

SEKm	2212	2112	%	2022:4	2021:4	%
Net sales	156,173	121,867	28	43,834	34,226	28
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) ¹	13,058	13,680	-5	4,084	3,077	33
Operating profit before amortization of acquisition-related intangible assets (EBITA)	10,887	14,051	-23	3,790	3,004	26
Amortization of acquisition-related intangible assets	-1,116	-852		-290	-250	
Adjusted operating profit ¹	11,942	12,828	-7	3,794	2,827	34
Items affecting comparability	-2,463	371		-323	-73	
Operating profit	9,479	13,199	-28	3,471	2,754	26
Financial items	-1,370	-662		-570	-190	
Profit before tax	8,109	12,537	-35	2,901	2,564	13
Adjusted profit before tax ¹	10,572	12,166	-13	3,224	2,637	22
Income taxes	-2,045	-2,727		-655	-346	
Profit for the period	6,064	9,810	-38	2,246	2,218	1
Earnings per share, SEK	7.93	12.27		3.15	2.82	
Adjusted earnings per share, SEK ²	12.28	12.50		3.78	3.14	

¹Excluding items affecting comparability; for amounts see page 13.

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

CEO'S COMMENTS

Record growth, significant price increases and acquisitions

“In 2022, Essity achieved record growth and its highest net sales ever. We can see that, despite significant cost inflation, we achieved an operating profit, before depreciation, amortization and impairment, that was in line with 2021. We implemented significant price increases, while volumes were higher for the year.”

Strong sales growth with significant price increases

Essity's net sales for 2022 amounted to approximately SEK 156bn. Sales growth, including organic sales growth and acquisitions, was strong and amounted to 17.7% and the average price increase was 13.3%. Sales growth was strong in all three business areas: Health & Medical, Consumer Goods and Professional Hygiene, which are all leading in a growing global hygiene and health market. Despite significant price increases, volumes were higher for the year. Work to improve efficiency has progressed at a high pace. Adjusted EBITA amounted to SEK 13,058m and the adjusted EBITA margin to 8.4%.

The adjusted return on capital employed was 9.7%. Earnings per share were SEK 7.93. For the 2022 fiscal year, the Board of Directors proposes an increase in the dividend of 4% to SEK 7.25 per share.

The year was dominated by the war in Ukraine and the resulting human suffering. Essity has made donations to the UNHCR and other international and local organizations. Work is ongoing to exit the Russian market and the company's assets in Russia have been impaired by approximately SEK 1.7bn.

Fourth quarter 2022 – Higher earnings and adjusted EBITA margin

In the fourth quarter, net sales increased significantly and amounted to approximately SEK 44bn. Further price increases were implemented and averaged 18.4%, an increase of 6% compared with the third quarter 2022. As a result of our successful work to raise prices, adjusted EBITA increased 33% and the adjusted EBITA margin increased 0.3 of a percentage point to 9.3%. Compared with the third quarter of 2022, the adjusted EBITA margin increased 1.8 percentage points. The adjusted return on capital employed increased to 11.4%.

Acquisitions in fast-growing segments

Three companies were acquired, in line with our strategy to grow in segments with strong future growth. The acquisition of the US company Legacy Converting Inc. will broaden Essity's offering in Professional Hygiene through a stronger position in wiping and cleaning products in the North American market. Two leading companies were acquired in Intimate Hygiene: Knix Wear Inc. and Modibodi. Essity is now a global market leader¹⁾ within leakproof apparel, which is the fastest growing product segment in Intimate Hygiene.

A winning offering

We continued to invest in innovation and marketing to increase the share of premium offerings, sustainable solutions and digital offerings. In 2022, Essity's e-commerce sales increased by 20% to SEK 23bn, corresponding to 15% of net sales. We also increased the company's direct-to-consumer sales through investments and acquisitions.

¹⁾ Estimate based on market data compiled by Essity

Concrete progress in sustainability

Leadership in the area of sustainability is a strategic priority for Essity to increase sales and profitability and to reduce risk in the company while we contribute toward a better world. For example, we have launched toilet paper containing wheat straw-based pulp under the Zewa brand and the Libero Touch climate-smart baby diaper. The company's carbon emissions under Science Based Targets, Scope 1 and 2, have been reduced by 18% compared with 2016. Essity also received several awards for the company's sustainability work, for example it was named as one of the world's most sustainable companies by Corporate Knights, has been included in S&P Global's Sustainability Yearbook 2022 as one of the top 150 most sustainable companies and CDP recognized Essity for leadership in sustainability, including us on its A-list for our work to combat deforestation. For the second consecutive year, we were designated a Diversity Leader by the Financial Times in its annual review of diversity work in European companies.

Priorities 2023

In order to achieve the Group's long-term targets with respect to growth and return by 2025, Essity is prioritizing innovation, strong brands, efficiency improvements and sustainability. We continue to work with price increases to offset cost inflation. Growth in the fastest growing sales channels and regions as well as in segments with the highest returns will be prioritized to create long-term growth in value for customers, consumers, employees and shareholders.

Magnus Groth

President and CEO

EARNINGS TREND

SEKm	2212	2112	%	2022:4	2021:4	%
Net sales	156,173	121,867	28	43,834	34,226	28
Cost of goods sold	-117,046	-86,628		-32,499	-25,617	
Items affecting comparability - cost of goods sold	-1,899	-146		-302	-82	
Gross profit	37,228	35,093	6	11,033	8,527	29
Adjusted gross profit¹	39,127	35,239	11	11,335	8,609	32
Sales, general and administration	-26,107	-21,617		-7,259	-5,538	
Items affecting comparability - sales, general and administration	-272	517		8	9	
Share of profits of associates and joint ventures	38	58		8	6	
Operating profit before amortization of acquisition-related intangible assets (EBITA)	10,887	14,051	-23	3,790	3,004	26
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)¹	13,058	13,680	-5	4,084	3,077	33
Amortization of acquisition-related intangible assets	-1,116	-852		-290	-250	
Items affecting comparability – acquisition-related intangible assets	-292	0		-29	0	
Operating profit	9,479	13,199	-28	3,471	2,754	26
Adjusted operating profit¹	11,942	12,828	-7	3,794	2,827	34
Financial items	-1,370	-662		-570	-190	
Profit before tax	8,109	12,537	-35	2,901	2,564	13
Adjusted profit before tax¹	10,572	12,166	-13	3,224	2,637	22
Income taxes	-2,045	-2,727		-655	-346	
Profit for the period	6,064	9,810	-38	2,246	2,218	1
Adjusted profit for the period¹	8,327	9,363	-11	2,490	2,264	10
¹ Excluding items affecting comparability						
Tax on amortization of acquisition-related intangible assets	320	245		86	72	
Margins (%)						
Gross margin	23.8	28.8		25.2	24.9	
Adjusted gross margin¹	25.1	28.9		25.9	25.2	
EBITA margin	7.0	11.5		8.6	8.8	
Adjusted EBITA margin¹	8.4	11.2		9.3	9.0	
Operating margin	6.1	10.8		7.9	8.0	
Adjusted operating margin¹	7.6	10.5		8.7	8.3	
Financial net margin	-0.9	-0.5		-1.3	-0.6	
Profit margin	5.2	10.3		6.6	7.4	
Adjusted profit margin¹	6.7	10.0		7.4	7.7	
Income taxes	-1.3	-2.2		-1.5	-1.0	
Adjusted income taxes ¹	-1.4	-2.3		-1.7	-1.1	
Net margin	3.9	8.1		5.1	6.4	
Adjusted net margin¹	5.3	7.7		5.7	6.6	
¹ Excluding items affecting comparability						

ADJUSTED EBITA BY BUSINESS AREA

SEKm	2212	2112	%	2022:4	2021:4	%
Health & Medical	2,903	3,821	-24	721	927	-22
Consumer Goods	7,211	7,938	-9	2,245	1,666	35
Professional Hygiene	3,998	2,710	48	1,423	681	109
Other	-1,054	-789		-305	-197	
Total¹	13,058	13,680	-5	4,084	3,077	33

¹ Excluding items affecting comparability; for amounts see page 13.

ADJUSTED OPERATING PROFIT BY BUSINESS AREA

SEKm	2212	2112	%	2022:4	2021:4	%
Health & Medical	2,054	3,101	-34	500	737	-32
Consumer Goods	6,964	7,815	-11	2,182	1,608	36
Professional Hygiene	3,978	2,701	47	1,417	679	109
Other	-1,054	-789		-305	-197	
Total¹	11,942	12,828	-7	3,794	2,827	34

¹ Excluding items affecting comparability; for amounts see page 13.

OPERATING CASH FLOW BY BUSINESS AREA

SEKm	2212	2112	%	2022:4	2021:4	%
Health & Medical	2,292	3,832	-40	822	1,038	-21
Consumer Goods	4,981	6,328	-21	966	1,804	-46
Professional Hygiene	3,397	2,512	35	1,259	754	67
Other	-1,503	-1,554		-584	-390	
Total	9,167	11,118	-18	2,463	3,206	-23

GROUP

NET SALES AND EARNINGS

January–December 2022 compared with the corresponding period a year ago

Net sales increased 28.2% to SEK 156,173m (121,867). Sales growth, including organic sales growth and acquisitions, amounted to 17.7%. Organic sales growth, which excludes exchange rate effects, acquisitions and divestments, amounted to 15.7%, of which volume accounted for 1.7% and price/mix for 14.0%. Organic sales growth in mature markets amounted to 17.5% and in emerging markets to 12.8%. Emerging markets accounted for 37% of net sales. Exchange rate effects increased net sales by 10.6%. Acquisitions increased net sales by 2.0%. Divestments reduced net sales by 0.1%.

The Group's gross margin was 23.8% (28.8). The Group's adjusted gross margin decreased by 3.8 percentage points to 25.1% (28.9). Higher costs for raw materials, energy and distribution reduced the margin by 11.7 percentage points. The margin was positively impacted by higher selling prices, higher volumes and a better mix. Continuous cost savings amounted to SEK -956m. Higher cost inflation had a negative impact on reported cost savings.

The Group's EBITA margin was 7.0% (11.5). The Group's adjusted EBITA margin decreased 2.8 percentage points to 8.4% (11.2). Sales costs, including marketing costs, were higher but decreased as a share of net sales.

Operating profit before amortization of acquisition-related intangible assets (EBITA) amounted to SEK 10,887m (14,051). Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 5% (16% excluding currency translation effects, acquisitions and divestments) to SEK 13,058m (13,680).

Items affecting comparability amounted to SEK -2,463m (371). Costs were mainly attributable to the impairment of assets in Russia of SEK -1,718m. Restructuring costs amounted to SEK -592m. Other amounted to SEK -153m.

Financial items increased to SEK -1,370m (-662), on account of higher average net debt and higher interest rates.

Profit before tax amounted to SEK 8,109m (12,537). Adjusted profit before tax decreased 13% (24% excluding currency translation effects, acquisitions and divestments) to SEK 10,572m (12,166).

The tax expense was SEK 2,045m (2,727). The tax expense, excluding effects of items affecting comparability, was SEK 2,245m (2,803).

Profit for the period decreased 38% (49% excluding currency translation effects, acquisitions and divestments) to SEK 6,064m (9,810). Adjusted profit for the period decreased 11% (22% excluding currency translation effects, acquisitions and divestments) to SEK 8,327m (9,363).

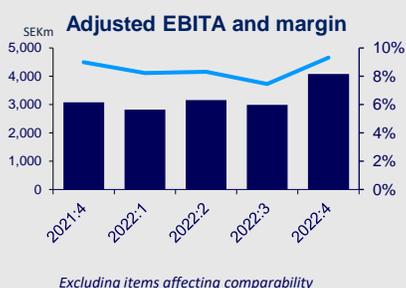
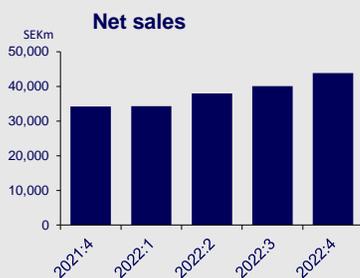
Earnings per share were SEK 7.93 (12.27). The adjusted earnings per share were SEK 12.28 (12.50).

Return on capital employed was 8.1% (12.3). The adjusted return on capital employed was 9.7% (12.0). Return on equity was 8.1% (15.0). The adjusted return on equity was 11.1% (14.3).

Fourth quarter of 2022 compared with the corresponding period a year ago

Net sales increased 28.1% to SEK 43,834m (34,226). Sales growth, including organic sales growth and acquisitions, amounted to 16.0%. Organic sales growth, which excludes exchange rate effects, acquisitions and divestments, amounted to 14.3%, of which volume accounted for -4.3% and price/mix for 18.6%. Organic sales growth in mature markets amounted to 17.9% and in emerging markets to 8.9%. Emerging markets accounted for 37% of net sales. Exchange rate effects increased net sales by 12.2%. Acquisitions increased net sales by 1.7%. Divestments reduced net sales by 0.1%.

The Group's gross margin was 25.2% (24.9). The Group's adjusted gross margin increased by 0.7 of a percentage point to 25.9% (25.2). Higher costs for raw materials, energy (including energy subsidies) and distribution reduced the margin by 9.5 percentage points. Lower volumes also had a negative impact. The margin was positively impacted by higher selling prices. Continuous cost savings amounted to SEK -551m. Higher cost inflation had a negative impact on reported cost savings.

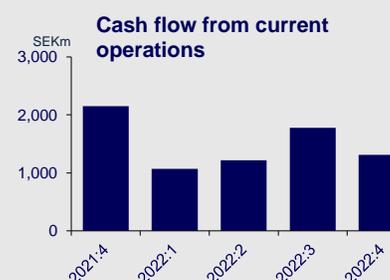
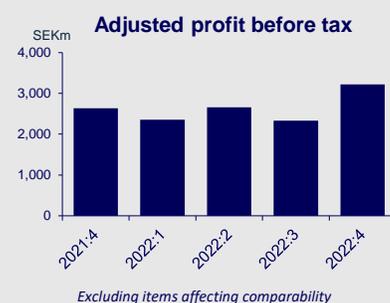


Change in net sales (%)

	22:4 vs 21:4	22:4 vs 21:4
Total	28.2	28.1
Volume	1.7	-4.3
Price/mix	14.0	18.6
Currency	10.6	12.2
Acquisitions	2.0	1.7
Divestments	-0.1	-0.1

Change in adjusted EBITA (%)

	22:4 vs 21:4	22:4 vs 21:4
Total	-5	33
Volume	6	-12
Price/mix	121	205
Raw materials	-89	-107
Energy	-22	-4
Currency	10	16
Other	-31	-65



The Group's EBITA margin was 8.6% (8.8). The Group's adjusted EBITA margin increased 0.3 of a percentage point to 9.3% (9.0). Sales costs, including marketing costs, were higher and increased as a share of net sales.

Operating profit before amortization of acquisition-related intangible assets (EBITA) amounted to SEK 3,790m (3,004). Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased by 33% (17% excluding currency translation effects, acquisitions and divestments) to SEK 4,084m (3,077).

Profit for the period increased by 1% (14% decrease excluding currency translation effects, acquisitions and divestments) to SEK 2,246m (2,218). Profit for the period increased by 10% (5% decrease excluding currency translation effects, acquisitions and divestments) to SEK 2,490m (2,264).

Earnings per share were SEK 3.15 (2.82). The adjusted earnings per share were SEK 3.78 (3.14).

Return on capital employed was 10.5% (9.8). The adjusted return on capital employed was 11.4% (10.1). Return on equity was 11.2% (13.3). The adjusted return on equity was 12.4% (13.5).

CASH FLOW AND FINANCING

January–December 2022 compared with the corresponding period a year ago

The operating cash surplus amounted to SEK 20,974m (20,471). The cash flow effect of changes in working capital was SEK -3,684m (-844). Working capital was negatively impacted by an increase in trade receivables as a result of higher sales and increased inventory value due to higher raw material prices. Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -6,875m (-7,304). Operating cash flow before investments in operating assets through leases amounted to SEK 9,714m (11,598). Operating cash flow was SEK 9,167m (11,118).

Financial items increased to SEK -1,370m (-662), on account of higher average net debt and higher interest rates.

Tax payments had an impact on cash flow of SEK -2,426m (-3,634).

The net sum of acquisitions and divestments was SEK -4,955m (-11,800). Net cash flow totaled SEK -4,852m (-10,193).

Net debt increased by SEK 7,436m during the period to SEK 62,869m. Excluding pension liabilities, net debt amounted to SEK 62,163m. Net cash flow increased net debt by SEK 4,852m. 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 2,281m. Exchange rate movements increased net debt by SEK 4,303m. Investments in non-operating assets through leases increased net debt by SEK 562m. The debt/equity ratio was 0.82 (0.81). Excluding pension liabilities, the debt/equity ratio was 0.81 (0.77). The debt payment capacity was 26% (29). Net debt in relation to EBITDA amounted to 3.13 (2.69). Net debt in relation to adjusted EBITDA amounted to 3.08 (2.77).

EQUITY

January–December 2022

The Group's equity increased by SEK 8,057m during the period, to SEK 76,564m. Profit for the period increased equity by SEK 6,064m. Equity decreased due to dividends to shareholders of SEK 5,314m. Equity increased net after tax by SEK 1,637m 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 decreased equity by SEK 1,455m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 7,093m. Other items increased equity by SEK 32m.

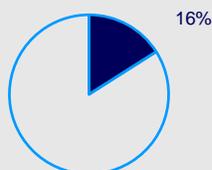
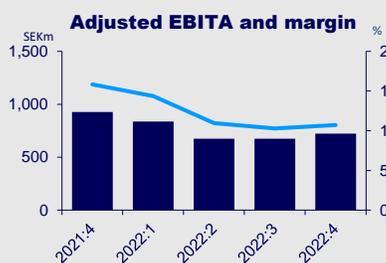
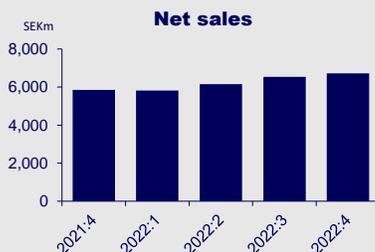
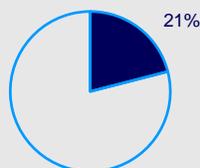
TAX

January–December 2022

A tax expense of SEK 2,245m was reported, excluding items affecting comparability, corresponding to a tax rate of 21.2% for the period. The tax expense including items affecting comparability was SEK 2,045m, corresponding to a tax rate of 25.2% for the period.

DIVIDEND

The Board of Directors proposes an increase in the dividend of 4% to SEK 7.25 (7.00) per share or SEK 5,092m (4,916). March 31, 2023 is proposed as the record date for the right to receive dividends, and the dividend is expected to be paid on April 5, 2023.

Share of Group, net sales
2212Share of Group, adjusted EBITA
2212

Change in net sales (%)

	2212 vs 2112	22:4 vs 21:4
Total	16.4	14.9
Volume	2.5	-2.0
Price/mix	4.8	6.6
Currency	7.3	9.0
Acquisitions	2.3	1.7
Divestments	-0.5	-0.4

Change in adjusted EBITA (%)

	2212 vs 2112	22:4 vs 21:4
Total	-24	-22
Volume	6	-4
Price/mix	29	41
Raw materials	-44	-36
Energy	-3	-1
Currency	5	7
Other	-17	-29

HEALTH & MEDICAL

SEKm	2212	2112	%	2022:4	2021:4	%
Net sales	25,239	21,685	16	6,728	5,854	15
Adjusted gross profit margin, %*	36.9	42.3		35.9	39.2	
Adjusted EBITA*	2,903	3,821	-24	721	927	-22
Adjusted EBITA margin, %*	11.5	17.6		10.7	15.8	
Adjusted operating profit*	2,054	3,101	-34	500	737	-32
Adjusted operating margin, %*	8.1	14.3		7.4	12.6	
Adjusted return on capital employed, %*	8.6	12.7		8.2	12.1	
Operating cash flow	2,292	3,832		822	1,038	

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

January–December 2022 compared with the corresponding period a year ago

Net sales increased 16.4% to SEK 25,239m (21,685). Sales growth, including organic sales growth and acquisitions, amounted to 9.6%. Organic sales growth amounted to 7.3%, of which volume accounted for 2.5% and price/mix for 4.8%. The organic sales growth amounted to 5.5% in mature markets. In emerging markets, which accounted for 20% of net sales, organic sales growth was 14.5%. Exchange rate effects increased net sales by 7.3%. Acquisitions increased net sales by 2.3%. Divestments reduced net sales by 0.5%.

For Incontinence Products Health Care, with Essity's globally leading TENA brand, organic sales growth amounted to 7.1% due to higher volumes and higher prices. In Medical Solutions, organic sales growth amounted to 7.6% as a result of higher volumes and higher prices. Sales growth was high in Wound Care and Orthopedics.

The adjusted gross margin decreased 5.4 percentage points to 36.9% (42.3). Higher costs for raw materials, energy and distribution had a negative impact on the margin. The margin was positively impacted by higher volumes and higher prices. The adjusted EBITA margin decreased 6.1 percentage points to 11.5% (17.6). Sales costs, including marketing costs, were higher and increased as a share of net sales. Adjusted EBITA decreased 24% (32% excluding currency translation effects, acquisitions and divestments) to SEK 2,903m (3,821).

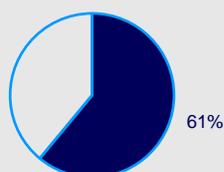
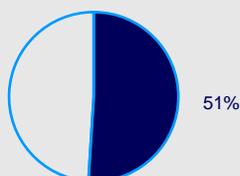
The operating cash surplus amounted to SEK 3,789m (4,629).

Fourth quarter of 2022 compared with the corresponding period a year ago

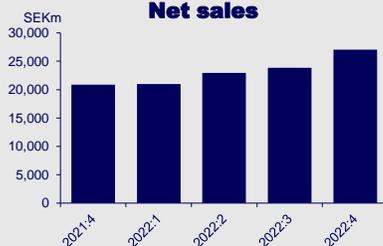
Net sales increased 14.9% to SEK 6,728m (5,854). Sales growth, including organic sales growth and acquisitions, amounted to 6.3%. Organic sales growth amounted to 4.6%, of which volume accounted for -2.0% and price/mix for 6.6%. The organic sales growth amounted to 4.3% in mature markets. In emerging markets, which accounted for 20% of net sales, organic sales growth was 5.6%. Exchange rate effects increased net sales by 9.0%. Acquisitions increased net sales by 1.7%. Divestments reduced net sales by 0.4%.

For Incontinence Products Health Care, with Essity's globally leading TENA brand, organic sales growth amounted to 3.8% due to higher prices. In Medical Solutions, organic sales growth amounted to 5.7% mainly as a result of higher prices. Sales growth was high in Wound Care and Orthopedics.

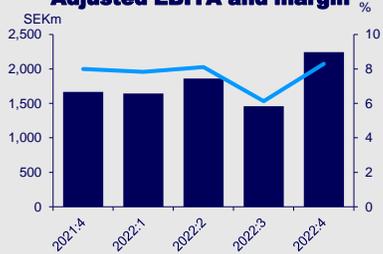
The adjusted gross margin decreased 3.3 percentage points to 35.9% (39.2). Higher costs for raw materials, energy and distribution had a negative impact on the margin. Lower volumes also had a negative impact. The margin was positively impacted by higher prices. The adjusted EBITA margin decreased 5.1 percentage points to 10.7% (15.8). Sales costs, including marketing costs, were higher and increased as a share of net sales. Adjusted EBITA decreased 22% (30% excluding currency translation effects, acquisitions and divestments) to SEK 721m (927).

Share of Group, net sales
2212Share of Group, adjusted EBITA
2212

Net sales



Adjusted EBITA and margin



Change in net sales (%)

	2212 vs 2112	22:4 vs 21:4
Total	28.1	29.8
Volume	0.1	-4.6
Price/mix	15.6	20.3
Currency	10.6	12.0
Acquisitions	1.8	2.1
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	2212 vs 2112	22:4 vs 21:4
Total	-9	35
Volume	2	-12
Price/mix	141	250
Raw materials	-108	-146
Energy	-26	-3
Currency	10	18
Other	-28	-72

CONSUMER GOODS

SEKm	2212	2112	%	2022:4	2021:4	%
Net sales	94,841	74,040	28	27,060	20,844	30
Adjusted gross profit margin, %*	22.6	27.0		23.2	23.0	
Adjusted EBITA*	7,211	7,938	-9	2,245	1,666	35
Adjusted EBITA margin, %*	7.6	10.7		8.3	8.0	
Adjusted operating profit*	6,964	7,815	-11	2,182	1,608	36
Adjusted operating margin, %*	7.3	10.6		8.1	7.7	
Adjusted return on capital employed, %*	9.8	12.8		11.3	10.0	
Operating cash flow	4,981	6,328		966	1,804	

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

January–December 2022 compared with the corresponding period a year ago

Net sales increased 28.1% to SEK 94,841m (74,040). Sales growth, including organic sales growth and acquisitions, amounted to 17.5%. Organic sales growth amounted to 15.7%, of which volume accounted for 0.1% and price/mix for 15.6%. Organic sales growth amounted to 18.7% in mature markets. In emerging markets, which accounted for 49% of net sales, organic sales growth was 12.6%. Exchange rate effects increased net sales by 10.6%. Acquisitions increased net sales by 1.8%.

For Incontinence Products Retail, with Essity's globally leading TENA brand, organic sales growth amounted to 10.8%, in Feminine Care to 15.7% and in Baby Care to 1.0%. In Consumer Tissue, organic sales growth amounted to 19.1% and for the Consumer Tissue Private Label Europe division to 35.8%. Prices were higher in all categories. Baby Care was negatively impacted by the discontinuation of the baby diaper business in Latin America.

The adjusted gross margin decreased 4.4 percentage points to 22.6% (27.0). Higher costs for raw materials, energy and distribution had a negative impact on the margin. The margin was positively impacted by higher volumes, higher prices and a better mix. The adjusted EBITA margin decreased 3.1 percentage points to 7.6% (10.7). Sales costs, including marketing costs, were higher but decreased as a share of net sales. Adjusted EBITA decreased 9% (20% excluding currency translation effects, acquisitions and divestments) to SEK 7,211m (7,938).

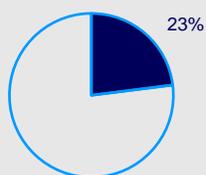
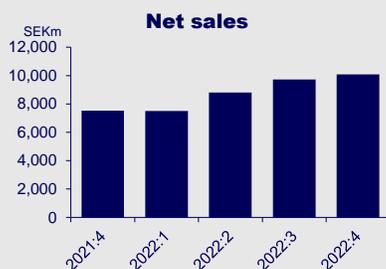
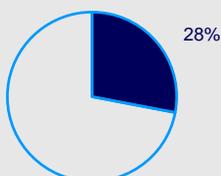
The operating cash surplus amounted to SEK 11,595m (11,632).

Fourth quarter of 2022 compared with the corresponding period a year ago

Net sales increased 29.8% to SEK 27,060m (20,844). Sales growth, including organic sales growth and acquisitions, amounted to 17.8%. Organic sales growth amounted to 15.7%, of which volume accounted for -4.6% and price/mix for 20.3%. Organic sales growth amounted to 21.4% in mature markets. In emerging markets, which accounted for 49% of net sales, organic sales growth was 10.1%. Exchange rate effects increased net sales by 12.0%. Acquisitions increased net sales by 2.1%.

For Incontinence Products Retail, with Essity's globally leading TENA brand, organic sales growth amounted to 10.3%, in Feminine Care to 10.7% and in Baby Care to -6.5%. In Consumer Tissue, organic sales growth amounted to 20.9% and for the Consumer Tissue Private Label Europe division to 48.7%. Prices were higher in all categories. Volumes in Baby Care were negatively impacted by the discontinuation of the baby diaper business in Latin America.

The adjusted gross margin increased 0.2 percentage points to 23.2% (23.0). Higher costs for raw materials, energy and distribution had a negative impact on the margin. Lower volumes also had a negative impact. The margin was positively impacted by higher prices. The adjusted EBITA margin increased 0.3 percentage points to 8.3% (8.0). Sales costs, including marketing costs, were higher but decreased as a share of net sales. Adjusted EBITA increased 35% (17% excluding currency translation effects, acquisitions and divestments) to SEK 2,245m (1,666).

Share of Group, net sales
2212Share of Group, adjusted EBITA
2212

Change in net sales (%)

	2212 vs 2112	22:4 vs 21:4
Total	38.1	33.9
Volume	5.8	-5.4
Price/mix	17.1	23.7
Currency	13.1	15.1
Acquisitions	2.1	0.5
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	2212 vs 2112	22:4 vs 21:4
Total	48	109
Volume	15	-20
Price/mix	156	264
Raw materials	-73	-77
Energy	-31	-11
Currency	15	21
Other	-34	-68

PROFESSIONAL HYGIENE

SEKm	2212	2112	%	2022:4	2021:4	%
Net sales	36,114	26,143	38	10,077	7,527	34
Adjusted gross profit margin, %*	23.1	23.3		26.1	20.4	
Adjusted EBITA*	3,998	2,710	48	1,423	681	109
Adjusted EBITA margin, %*	11.1	10.4		14.1	9.0	
Adjusted operating profit*	3,978	2,701	47	1,417	679	109
Adjusted operating margin, %*	11.0	10.3		14.1	9.0	
Adjusted return on capital employed, %*	14.5	11.8		19.5	11.1	
Operating cash flow	3,397	2,512		1,259	754	

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

January–December 2022 compared with the corresponding period a year ago

Net sales increased 38.1% to SEK 36,114m (26,143). Sales growth, including organic sales growth and acquisitions, amounted to 25.0%. Organic sales growth amounted to 22.9%, of which volume accounted for 5.8% and price/mix for 17.1%. Organic sales growth amounted to 25.6% in mature markets. In emerging markets, which accounted for 19% of net sales, organic sales growth was 13.2%. Exchange rate effects increased net sales by 13.1%. Acquisitions increased net sales by 2.1%.

The adjusted gross margin decreased 0.2 of a percentage point to 23.1% (23.3). Higher costs for raw materials, energy and distribution had a negative impact on the margin. The margin was positively impacted by higher prices, a better mix and higher volumes. The adjusted EBITA margin increased 0.7 percentage points to 11.1% (10.4). Sales costs, including marketing costs, were higher but decreased as a share of net sales. Adjusted EBITA increased 48% (33% excluding currency translation effects, acquisitions and divestments) to SEK 3,998m (2,710).

The operating cash surplus amounted to SEK 6,386m (4,782).

Fourth quarter of 2022 compared with the corresponding period a year ago

Net sales increased 33.9% to SEK 10,077m (7,527). Sales growth, including organic sales growth and acquisitions, amounted to 18.8%. Organic sales growth amounted to 18.3%, of which volume accounted for -5.4% and price/mix for 23.7%. Organic sales growth amounted to 22.8% in mature markets. In emerging markets, which accounted for 18% of net sales, organic sales growth was 3.3%. Exchange rate effects increased net sales by 15.1%. Acquisitions increased net sales by 0.5%.

The adjusted gross margin increased by 5.7 percentage points to 26.1% (20.4). Higher costs for raw materials, energy and distribution had a negative impact on the margin. Lower volumes also had a negative impact. The margin was positively impacted by higher prices. The adjusted EBITA margin increased 5.1 percentage points to 14.1% (9.0). Sales costs, including marketing costs, were higher and increased as a share of net sales. Adjusted EBITA increased 109% (89% excluding currency translation effects, acquisitions and divestments) to SEK 1,423m (681).

DISTRIBUTION OF SHARES

December 31, 2022	Class A	Class B	Total
Registered number of shares	61,208,914	641,133,575	702,342,489

At the end of the period, the proportion of Class A shares was 8.7%. In the fourth quarter, 80,000 Class A shares were converted to Class B shares at the request of shareholders. The total number of votes in the company amounts to 1,253,222,715.

FUTURE REPORTS

Essity's Annual Report for 2022 is intended to be published during the week starting February 27, 2023. In 2023, interim reports will be published on April 27, July 20 and October 26.

ANNUAL GENERAL MEETING

Essity's Annual General Meeting will be held in Stockholm on March 29, 2023.

INVITATION TO PRESENTATION OF THE YEAR-END REPORT FOR 2022

In conjunction with publication, a telephone and web presentation will be held at 09:00 CET, where President and CEO Magnus Groth will present and answer questions.

Presentation

Date: Thursday, January 26, 2023

Time: 09:00 CET

Link to Web presentation: <https://essity.videosync.fi/2023-01-26>

Telephone: UK: +44 (0) 33 055 102 00, USA: +1 212 999 66 59, SWE: +46 8 505 204 24. Please call in well in advance of the start of the presentation. Indicate: "Essity".

The presentation of the year-end report will also be available on [LinkedIn](#) and [Twitter](#).

Stockholm January 26, 2023

Essity Aktiebolag (publ)

Magnus Groth

President and CEO

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NB:

This report has not been reviewed by the company's auditors.

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 Karl Stoltz, Media Relations Director, at 07:00 CET on January 26, 2023.

CONDENSED CONSOLIDATED INCOME STATEMENT

SEKm	2022:4	2021:4	2022:3	2212	2112
Net sales	43,834	34,226	40,109	156,173	121,867
Cost of goods sold ^{1,2}	-32,499	-25,617	-30,625	-117,046	-86,628
Items affecting comparability - cost of goods sold ²	-302	-82	-131	-1,899	-146
Gross profit	11,033	8,527	9,353	37,228	35,093
Sales, general and administration ^{1,2}	-7,259	-5,538	-6,500	-26,107	-21,617
Items affecting comparability - sales, general and administration ²	8	9	-75	-272	517
Share of profits of associates and joint ventures	8	6	6	38	58
Operating profit before amortization of acquisition-related intangible assets (EBITA)	3,790	3,004	2,784	10,887	14,051
Amortization of acquisition-related intangible assets	-290	-250	-287	-1,116	-852
Items affecting comparability - Acquisition-related intangible assets ²	-29	0	-6	-292	0
Operating profit	3,471	2,754	2,491	9,479	13,199
Financial items	-570	-190	-368	-1,370	-662
Profit before tax	2,901	2,564	2,123	8,109	12,537
Income taxes	-655	-346	-499	-2,045	-2,727
Profit for the period	2,246	2,218	1,624	6,064	9,810
Earnings attributable to:					
Owners of the Parent company	2,209	1,982	1,567	5,567	8,620
Non-controlling interests	37	236	57	497	1,190
Earnings per share - owners of the Parent company					
Earnings per share before and after dilution effects, SEK	3.15	2.82	2.23	7.93	12.27
Average numbers of shares before and after dilution, million	702.3	702.3	702.3	702.3	702.3
¹ Of which, depreciation and amortization	-2,190	-1,926	-2,162	-8,407	-7,214
² Of which, impairment	-350	-75	-151	-2,191	-177
Gross margin	25.2	24.9	23.3	23.8	28.8
EBITA margin	8.6	8.8	6.9	7.0	11.5
Operating margin	7.9	8.0	6.2	6.1	10.8
Financial net margin	-1.3	-0.6	-0.9	-0.9	-0.5
Profit margin	6.6	7.4	5.3	5.2	10.3
Income taxes	-1.5	-1.0	-1.2	-1.3	-2.2
Net margin	5.1	6.4	4.1	3.9	8.1
Adjusted, excluding items affecting comparability:					
Gross margin	25.9	25.2	23.6	25.1	28.9
EBITA margin	9.3	9.0	7.5	8.4	11.2
Operating margin	8.7	8.3	6.7	7.6	10.5
Financial net margin	-1.3	-0.6	-0.9	-0.9	-0.5
Profit margin	7.4	7.7	5.8	6.7	10.0
Income taxes	-1.7	-1.1	-1.3	-1.4	-2.3
Net margin	5.7	6.6	4.5	5.3	7.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEKm	2022:4	2021:4	2022:3	2212	2112
Profit for the period	2,246	2,218	1,624	6,064	9,810
Other comprehensive income for the period					
Items that will not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	-19	-105	56	2,299	-148
Fair value through other comprehensive income	0	-1	-2	-16	0
Income tax attributable to components in other comprehensive income	-107	-132	5	-659	-13
	-126	-238	59	1,624	-161
Items that have been or may be reclassified subsequently to the income statement					
Cash flow hedges					
Result from remeasurement of derivatives recognized in equity	-7,787	380	5,202	3,110	4,142
Transferred to profit or loss for the period	-1,121	-896	-1,908	-5,252	-1,363
Translation differences in foreign operations	-3,233	1,752	3,969	8,311	5,480
Gains/losses from hedges of net investments in foreign operations	808	-254	-827	-1,397	-1,012
Other comprehensive income from associates companies	0	3	0	0	15
Income tax attributable to components in other comprehensive income	2,213	192	-701	848	-539
	-9,120	1,177	5,735	5,620	6,723
Other comprehensive income for the period, net of tax	-9,246	939	5,794	7,244	6,562
Total comprehensive income for the period	-7,000	3,157	7,418	13,308	16,372
Total comprehensive income attributable to:					
Owners of the Parent company	-6,682	2,572	7,173	12,338	14,294
Non-controlling interests	-318	585	245	970	2,078

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

SEKm	2212	2112
Equity attributable to owners of the Parent company		
Value, January 1	59,874	54,352
Total comprehensive income for the period	12,338	14,294
Dividend	-4,916	-4,741
Acquisition of non-controlling interests	-10	-4,042
Private placement to non-controlling interests	17	13
Transferred to cost of hedged investments	31	1
Revaluation effect upon acquisition of non-controlling interests	12	-3
Value, December 31	67,346	59,874
Non-controlling interests		
Value, January 1	8,633	8,990
Total comprehensive income for the period	970	2,078
Dividend	-398	-528
Private placement to non-controlling interests	16	12
Acquisition of non-controlling interests	-3	-1,919
Value, December 31	9,218	8,633
Total equity, value December 31	76,564	68,507

CONSOLIDATED OPERATING CASH FLOW STATEMENT, SUPPLEMENTARY DISCLOSURE

SEKm	2212	2112
Operating cash surplus	20,974	20,471
Change in working capital	-3,684	-844
Investment in non-current assets, net	-6,875	-7,304
Restructuring costs, etc.	-701	-725
Operating cash flow before investments in operating assets through leases	9,714	11,598
Investments in operating assets through leases	-547	-480
Operating cash flow	9,167	11,118
Financial items	-1,370	-662
Income taxes paid	-2,426	-3,634
Other	9	72
Cash flow from current operations	5,380	6,894
Acquisitions of Group companies and other operations	-4,955	-11,813
Divestments of Group companies and other operations	0	13
Cash flow before transactions with shareholders	425	-4,906
Private placement to non-controlling interests	35	25
Dividend to non-controlling interests	-396	-571
Dividend	-4,916	-4,741
Net cash flow	-4,852	-10,193
Net debt at the start of the period	-55,433	-42,688
Net cash flow	-4,852	-10,193
Remeasurements to equity	2,281	-147
Investments in non-operating assets through leases	-562	-385
Translation differences	-4,303	-2,020
Net debt at the end of the period	-62,869	-55,433
Debt/equity ratio	0.82	0.81
Debt payment capacity, %	26	29
Net debt/EBITDA	3.13	2.69
Net debt/Adjusted EBITDA	3.08	2.77

CONSOLIDATED CASH FLOW STATEMENT

SEKm	2212	2112
Operating activities		
Operating profit	9,479	13,199
Adjustment for non-cash items ¹⁾	11,341	7,212
Interest paid	-811	-724
Interest received	171	91
Other financial items	-658	-39
Change in liabilities relating to restructuring programs, etc.	-538	-594
Paid tax	-2,426	-3,634
Cash flow from operating activities before changes in working capital	16,558	15,511
Cash flow from changes in working capital		
Change in inventories	-7,380	-1,047
Change in operating receivables	-3,817	-2,084
Change in operating liabilities	7,513	2,287
Cash flow from operating activities	12,874	14,667
Investing activities		
Acquisitions of Group companies and other operations	-4,797	-4,427
Divestments of Group companies and other operations	0	16
Investments in intangible assets and property, plant and equipment	-6,898	-7,301
Sale of property, plant and equipment	74	54
Investment in current financial assets, etcetera	-2,828	-418
Paid interest capitalized in intangible asset and property, plant and equipment	-51	-57
Cash flow from investing activities	-14,500	-12,133
Financing activities		
Private placement to non-controlling interests	35	25
Acquisition of non-controlling interests	-14	-5,961
Dividend	-4,916	-4,741
Proceeds from borrowings	18,214	19,444
Repayment of borrowings	-11,115	-12,003
Dividend to non-controlling interests	-396	-571
Cash flow from financing activities	1,808	-3,807
Cash flow for the period	182	-1,273
Cash and cash equivalents at the beginning of the period	3,904	4,982
Translation differences in cash and cash equivalents	202	195
Cash and cash equivalents at the end of the period	4,288	3,904
Cash flow from operating activities per share, SEK	18.30	20.88
Reconciliation with consolidated operating cash flow statement		
Cash flow for the period	182	-1,273
Paid/unpaid financial receivable upon divestment of Group company	0	-18
Repayment of borrowings	11,115	12,003
Proceeds from borrowings	-18,214	-19,444
Loans granted to external parties	2,828	418
Investment in operating assets through leases	-547	-480
Net debt in acquired and divested operations	-144	-1,410
Accrued interest	-72	10
Other	0	1
Net cash flow according to consolidated operating cash flow statement	-4,852	-10,193
¹⁾ Adjustment for non-cash items		
Depreciation/amortization and impairment of non-current assets	10,598	7,391
Gain/loss on asset sales	30	13
Change in provision for ongoing competition case	0	-54
Depreciation of prepaid selling expenses	465	400
Gain/loss on divestments and liquidation	2	21
Non-cash items relating to efficiency program	84	-43
Revaluation effect of previously owned holding upon acquisition	0	-706
Other	162	190
Total	11,341	7,212

CONSOLIDATED BALANCE SHEET

SEKm	December 31, 2022	December 31, 2021
ASSETS		
Non-current assets		
Goodwill	44,786	37,803
Other intangible assets	25,346	21,806
Property, plant and equipment	62,898	58,918
Investments in associates and joint ventures	291	239
Shares and participations	6	7
Surplus in funded pension plans	1,965	1,439
Non-current financial assets	123	412
Deferred tax assets	2,545	2,012
Other non-current assets	1,620	1,411
Total non-current assets	139,580	124,047
Current Assets		
Inventories	28,888	19,339
Trade receivables	25,990	19,871
Current tax assets	1,152	952
Other current receivables	5,761	5,787
Current financial assets	4,941	1,150
Cash and cash equivalents	4,288	3,904
Total current assets	71,020	51,003
Total assets	210,600	175,050
EQUITY AND LIABILITIES		
Equity		
Share capital	2,350	2,350
Reserves	11,473	6,416
Retained earnings	53,523	51,108
Equity attributable to owners of the Parent company	67,346	59,874
Non-controlling interests	9,218	8,633
Total equity	76,564	68,507
Non-current liabilities		
Non-current financial liabilities	58,242	47,443
Provisions for pensions	2,671	4,149
Deferred tax liabilities	8,718	7,574
Other non-current provisions	491	396
Other non-current liabilities	1,196	86
Total non-current liabilities	71,318	59,648
Current liabilities		
Current financial liabilities	13,273	10,746
Trade payables	25,644	18,030
Current tax liabilities	1,589	1,576
Current provisions	1,217	736
Other current liabilities	20,995	15,807
Total current liabilities	62,718	46,895
Total liabilities	134,036	106,543
Total equity and liabilities	210,600	175,050

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	December 31, 2022	December 31, 2021
Debt/equity ratio	0.82	0.81
Equity/assets ratio	32%	34%
Equity	76,564	68,507
Equity per share, SEK	109	98
Return on equity	8.1%	15.0%
Return on equity excluding items affecting comparability	11.1%	14.3%
Capital employed	139,433	123,940
- of which working capital	14,033	11,157
Return on capital employed*	8.1%	12.3%
Return on capital employed* excluding items affecting comparability	9.7%	12.0%
Net debt	62,869	55,433
Provisions for restructuring costs are included in the balance sheet as follows		
-Other non-current provisions	105	96
-Other current provisions	213	160

*) rolling 12 months

NET SALES (business area reporting)

SEKm	2212	2112	2022:4	2022:3	2022:2	2022:1	2021:4	2021:3
Health & Medical	25,239	21,685	6,728	6,544	6,145	5,822	5,854	5,572
Consumer Goods	94,841	74,040	27,060	23,825	22,970	20,986	20,844	18,310
Professional Hygiene	36,114	26,143	10,077	9,733	8,811	7,493	7,527	7,260
Other	-21	-1	-31	7	3	0	1	3
Total	156,173	121,867	43,834	40,109	37,929	34,301	34,226	31,145

ORGANIC SALES GROWTH (business area reporting)

(%)	2212	2112	2022:4	2022:3	2022:2	2022:1	2021:4	2021:3
Health & Medical	7.3	5.4	4.6	7.6	7.9	9.5	6.9	7.3
Consumer Goods	15.7	1.8	15.7	17.6	17.9	11.5	5.7	2.9
Professional Hygiene	22.9	5.7	18.3	19.9	26.1	29.8	16.4	20.7
Total	15.7	3.3	14.3	16.3	17.8	14.6	8.0	7.4

SALES GROWTH, INCLUDING ORGANIC SALES GROWTH AND ACQUISITIONS (business area reporting)

(%)	2212	2112	2022:4	2022:3	2022:2	2022:1	2021:4	2021:3
Health & Medical	9.6	6.5	6.3	9.9	10.9	11.7	8.2	8.6
Consumer Goods	17.5	2.8	17.8	18.4	20.0	13.8	7.8	5.0
Professional Hygiene	25.0	7.5	18.8	20.3	30.2	34.1	20.2	24.3
Total	17.7	4.5	16.0	17.3	20.6	17.3	10.3	9.7

ADJUSTED EBITA (business area reporting)

SEKm	2212	2112	2022:4	2022:3	2022:2	2022:1	2021:4	2021:3
Health & Medical	2,903	3,821	721	673	673	836	927	1,024
Consumer Goods	7,211	7,938	2,245	1,460	1,861	1,645	1,666	1,832
Professional Hygiene	3,998	2,710	1,423	1,096	916	563	681	900
Other	-1,054	-789	-305	-239	-292	-218	-197	-170
Total	13,058	13,680	4,084	2,990	3,158	2,826	3,077	3,586

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	2212	2112	2022:4	2022:3	2022:2	2022:1	2021:4	2021:3
Health & Medical	2,054	3,101	500	456	463	635	737	849
Consumer Goods	6,964	7,815	2,182	1,395	1,801	1,586	1,608	1,774
Professional Hygiene	3,978	2,701	1,417	1,091	911	559	679	898
Other	-1,054	-789	-305	-239	-293	-217	-197	-170
Total adjusted operating profit¹	11,942	12,828	3,794	2,703	2,882	2,563	2,827	3,351
Financial items	-1,370	-662	-570	-368	-224	-208	-190	-137
Profit before tax¹	10,572	12,166	3,224	2,335	2,658	2,355	2,637	3,214
Income taxes	-2,245	-2,803	-734	-509	-575	-427	-373	-808
Net profit for the period²	8,327	9,363	2,490	1,826	2,083	1,928	2,264	2,406
¹ Excluding items affecting comparability before tax amounting to:	-2,463	371	-323	-212	-515	-1,413	-73	524
² Excluding items affecting comparability after tax amounting to:	-2,263	447	-244	-202	-410	-1,407	-46	559

ADJUSTED EBITA MARGIN (business area reporting)

(%)	2212	2112	2022:4	2022:3	2022:2	2022:1	2021:4	2021:3
Health & Medical	11.5	17.6	10.7	10.3	11.0	14.4	15.8	18.4
Consumer Goods	7.6	10.7	8.3	6.1	8.1	7.8	8.0	10.0
Professional Hygiene	11.1	10.4	14.1	11.3	10.4	7.5	9.0	12.4
Total	8.4	11.2	9.3	7.5	8.3	8.2	9.0	11.5

STATEMENT OF PROFIT OR LOSS

SEKm	2022:4	2022:3	2022:2	2022:1	2021:4
Net sales	43,834	40,109	37,929	34,301	34,226
Cost of goods sold	-32,499	-30,625	-28,321	-25,601	-25,617
Items affecting comparability - cost of goods sold	-302	-131	-383	-1,083	-82
Gross profit	11,033	9,353	9,225	7,617	8,527
Sales, general and administration	-7,259	-6,500	-6,460	-5,888	-5,538
Items affecting comparability - sales, general and administration	8	-75	-125	-80	9
Share of profits of associates and joint ventures	8	6	10	14	6
EBITA	3,790	2,784	2,650	1,663	3,004
Amortization of acquisition-related intangible assets	-290	-287	-276	-263	-250
Items affecting comparability - acquisition-related intangible assets	-29	-6	-7	-250	0
Operating profit	3,471	2,491	2,367	1,150	2,754
Financial items	-570	-368	-224	-208	-190
Profit before tax	2,901	2,123	2,143	942	2,564
Income taxes	-655	-499	-470	-421	-346
Net profit for the period	2,246	1,624	1,673	521	2,218

CONDENSED INCOME STATEMENT PARENT COMPANY

SEKm	2212	2112
Administrative expenses	-755	-734
Other operating income	237	312
Operating loss	-518	-422
Financial items	-2,194	2,702
Profit before tax	-2,712	2,280
Appropriations and income taxes	316	-169
Profit for the period	-2,396	2,111

CONDENSED BALANCE SHEET PARENT COMPANY

SEKm	December 31, 2022	December 31, 2021
Intangible assets	0	0
Property, plant and equipment	12	13
Financial non-current assets	176,780	177,279
Total non-current assets	176,792	177,292
Total current assets	3,046	852
Total assets	179,838	178,144
Restricted equity	2,350	2,350
Non-restricted equity	76,246	83,559
Total equity	78,596	85,909
Untaxed reserves	195	6
Provisions	846	880
Non-current liabilities	52,470	34,752
Current liabilities	47,731	56,597
Total equity, provisions and liabilities	179,838	178,144

NOTES

1 ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34 and recommendation RFR 1 of the Swedish Financial Reporting Board (RFR), and with regards to the Parent company, RFR 2. A few amended accounting standards published by the IASB entered into force on January 1, 2022, following approval by the EU. Essity Aktiebolag (publ) applies these amendments, which have not had any material impact on the Group's or the Parent company's financial statements. All other applied accounting principles and calculation methods correspond to those presented in Essity Aktiebolag's (publ) Annual and Sustainability Report for 2021.

2 RISKS AND UNCERTAINTIES

Processes for risk management

Essity's Board determines the Group's strategic direction based on recommendations from the Executive Management Team. Responsibility for the long-term, overall management of strategic risks corresponds to the company's delegation structure, from the Board 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 with the Group's policies in the organization.

Essity's risk exposure and risk management are described on pages 35–40 of Essity's Annual and Sustainability Report for 2021. 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 "Events during the quarter" in the interim and year-end reports.

Risk that arose in conjunction with the war in Ukraine

The war in Ukraine has created an uncertain situation for the health and safety of several of our employees. Furthermore, the global situation has also been negatively affected and, for example, energy prices in Europe have increased drastically. The higher energy prices impact Essity's earnings.

The company's assets in Russia have been impaired by approximately SEK 1.7bn. Work is ongoing to exit the Russian market. In 2022, Essity's net sales in Russia amounted to approximately SEK 3.6bn, corresponding to about 2% of total consolidated net sales in 2022. Net assets in Russia amounted to approximately SEK 1.4bn following the aforementioned impairment. These assets include cash and cash equivalents of SEK 0.9bn. It is not possible to foresee if these cash and cash equivalents will be available outside Russia but it is assumed that they can be used to pay debts in Russia that amount to approximately SEK 0.6bn. Other assets consist of inventory of approximately SEK 500m, trade receivables of approximately SEK 500m and other receivables of approximately SEK 100m. Essity has 1,400 employees in Russia and three production plants.

Essity's net sales in Ukraine amounted to less than 1% of total consolidated net sales in 2022.

Spain

In the fourth quarter of 2022, a lawsuit was served by Spanish authorities against, among other companies, Essity for alleged participation in collusion between incontinence product producers between 1996 and 2014. Essity has denied liability.

3 FINANCIAL INSTRUMENTS PER CATEGORY

Distribution by level for measurement at fair value

SEKm	Carrying amount in the balance sheet	Measured at fair value through profit or loss	Derivatives used for hedge accounting	Financial assets measured at fair value through OCI	Financial liabilities measured at amortized cost	Of which fair value by level ¹	
						1	2
December 31, 2022							
Derivatives	4,416	1,631	2,785	-	-	-	4,416
Non-current financial assets	92	-	-	92	-	92	-
Total assets	4,508	1,631	2,785	92	-	92	4,416
Derivatives	6,126	765	5,361	-	-	-	6,126
Financial liabilities							
Current financial liabilities	12,501	4,489	-	-	8,012	-	4,489
Non-current financial liabilities	54,090	23,763	-	-	30,327	-	23,763
Total liabilities	72,717	29,017	5,361	-	38,339	-	34,378
December 31, 2021							
Derivatives	4,784	910	3,874	-	-	-	4,784
Non-current financial assets	99	-	-	99	-	99	-
Total assets	4,883	910	3,874	99	-	99	4,784
Derivatives	1,578	633	945	-	-	-	1,578
Financial liabilities							
Current financial liabilities	9,838	14	-	-	9,824	-	14
Non-current financial liabilities	47,056	20,386	-	-	26,670	-	20,386
Total liabilities	58,472	21,033	945	-	36,494	-	21,978

¹ No financial instruments have been classified to level 3

The total fair value of the above financial liabilities, excluding lease liabilities, is SEK 64,324m (53,925). 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 July 1, 2021, Essity acquired the remaining 63.8% of the shares in the hygiene company Asaleo Care. The purchase price allocation for the acquisition has been finalized. No adjustments were made and the final purchase price allocation is the same as the preliminary purchase price allocation presented in the Annual and Sustainability Report for 2021.

In the final quarter of 2021, Essity acquired the US-based companies Aquacast LLC, active in orthopedics, and Hydrofera, active in wound care. The purchase price allocations for both of these acquisitions were finalized in 2022 and are unchanged compared with the Annual and Sustainability Report for 2021.

On February 2, 2022, Essity acquired the US cleaning and wiping company Legacy Converting, Inc. The company has approximately 30 employees. The final purchase price amounts to USD 39m (SEK 362m) with a potential additional earnout amount of USD 10m (SEK 94m) on a cash and debt-free basis, excluding financial lease liabilities. Since the acquisition, Legacy Converting's reported net sales amounted to SEK 144m, adjusted EBITDA to SEK 24m, and adjusted EBITA to SEK 2m. If Legacy Converting had been consolidated as of January 1, 2022, net sales would have amounted to SEK 154m, adjusted EBITDA to SEK 26m and adjusted EBITA to SEK 2m. The purchase price allocation has not yet been finalized.

On July 7, 2022, Essity announced that the company was acquiring the Australian company Modibodi, a leading leakproof apparel company in Australia, New Zealand and the UK. The purchase price amounted to AUD 141m (approximately SEK 1bn) on a cash and debt-free basis. Modibodi has about 45 employees and is headquartered in Sydney, Australia. Modibodi was consolidated into Essity's accounts from August 1, 2022. Since the acquisition, Modibodi's reported net sales amounted to SEK

169m, adjusted EBITDA to SEK 0m, and adjusted EBITA to SEK -1m. If Modibodi had been consolidated as of January 1, 2022, net sales would have amounted to SEK 398m, adjusted EBITDA to SEK -3m and adjusted EBITA to SEK -4m.

Purchase price allocation, Modibodi	Preliminary
SEKm	
Intangible assets	341
Property, plant and equipment	4
Other non-current assets	5
Operating assets	98
Cash and cash equivalents	26
Provisions and other non-current liabilities	-102
Net debt excluding cash and cash equivalents	-3
Operating liabilities	-51
Fair value of net assets	318
Goodwill	706
Consideration transferred	1,024
Consideration transferred	-1,024
Cash and cash equivalents in acquired companies	26
Effect on Group's cash and cash equivalents, acquisition of Group companies and other operations	-998
Acquired net debt excluding cash and cash equivalents	-3
Acquisitions of Group companies and other operations during the period, including net debt assumed	-1,001

On July 8, 2022, Essity announced that the company is acquiring 80 percent of Canadian company Knix Wear Inc. ("Knix"), a leading supplier of absorbent menstrual and incontinence underwear. The transaction was finalized on September 1, 2022. The agreement with the seller includes a put/call option to buy/sell the remaining shares in three years at fair value when the option can be redeemed. The amount to be paid if the option is exercised is initially recorded at present value as a liability in Essity's balance sheet. Accordingly, in accounting terms, the acquisition is treated as though 100% of the company had been acquired. The purchase price amounted to CAD 430m (approximately SEK 3.5bn) on a cash and debt-free basis for 80 percent of the company. In 2021, the company reported net sales of CAD 133.6m (approximately SEK 914m), EBITDA of CAD 13.8m (approximately SEK 95m) and EBITA of CAD 13.4m (approximately SEK 92m). Knix has approximately 200 employees and is headquartered in Toronto, Canada. Knix was consolidated into Essity's accounts from September 1, 2022. Since the acquisition, Knix's reported net sales amounted to SEK 493m, adjusted EBITDA to SEK 2m, and adjusted EBITA to SEK -5m. If Knix had been consolidated as of January 1, 2022, net sales would have amounted to SEK 1,351m, adjusted EBITDA to SEK -9m and adjusted EBITA to SEK -20m.

Purchase price allocation, Knix	Preliminary
SEKm	
Intangible assets	1,747
Property, plant and equipment	79
Other non-current assets	4
Operating assets	483
Cash and cash equivalents	17
Provisions and other non-current liabilities	-457
Net debt excluding cash and cash equivalents	-53
Operating liabilities	-286
Fair value of net assets	1,534
Goodwill	2,782
Consideration not transferred, recognized as a liability	-863
Consideration transferred	3,453
Consideration transferred	-3,453
Cash and cash equivalents in acquired companies	17
Effect on Group's cash and cash equivalents, acquisition of Group companies and other operations	-3,436
Acquired net debt excluding cash and cash equivalents	-53
Acquisitions of Group companies and other operations during the period, including net debt assumed	-3,489

5 USE OF NON-INTERNATIONAL FINANCIAL REPORTING STANDARDS (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 ESMA (European Securities and Markets Authority). 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 2021 Annual Report, pages 75–80, describes the various non-IFRS performance measures that are used as a complement to the financial information presented in accordance with IFRS. Tables are presented below that show how the performance measures have been calculated.

Capital employed

SEKm	2212	2112
Total assets	210,600	175,050
-Financial assets	-11,317	-6,905
-Non-current non-interest bearing liabilities	-10,405	-8,056
-Current non-interest bearing liabilities	-49,445	-36,149
Capital employed	139,433	123,940

SEKm	2022:4	2022:3	2022:2	2022:1	2021:4
Health & Medical	34,557	35,708	34,799	32,471	31,401
Consumer Goods	76,672	81,936	73,267	68,526	66,939
Professional Hygiene	27,911	30,622	28,750	26,213	24,518
Other	293	-326	-950	839	1,082
Capital employed	139,433	147,940	135,866	128,049	123,940

Working capital

SEKm	2212	2112
Inventories	28,888	19,339
Trade receivables	25,990	19,871
Other current receivables	5,761	5,787
Trade payables	-25,644	-18,030
Other current liabilities	-20,995	-15,807
Other	33	-3
Working capital	14,033	11,157

Net debt

SEKm	2212	2112
Surplus in funded pension plans	1,965	1,439
Non-current financial assets	123	412
Current financial assets	4,941	1,150
Cash and cash equivalents	4,288	3,904
Financial assets	11,317	6,905
Non-current financial liabilities	58,242	47,443
Provisions for pensions	2,671	4,149
Current financial liabilities	13,273	10,746
Financial liabilities	74,186	62,338
Net debt	62,869	55,433

EBITDA

SEKm	2212	2112	2022:4	2021:4
Operating profit	9,479	13,199	3,471	2,754
-Amortization of acquisition-related intangible assets	1,116	852	290	250
-Depreciation/amortization	6,217	5,424	1,621	1,424
-Depreciation right-of-use asset	1,074	938	279	252
-Impairment	41	-2	30	-3
-Items affecting comparability - impairment net	1,858	179	291	78
-Items affecting comparability - impairment of acquisition-related intangible assets	292	0	29	0
EBITDA	20,077	20,590	6,011	4,755
-Items affecting comparability excluding depreciation/amortization and impairment	313	-550	3	-5
Adjusted EBITDA	20,390	20,040	6,014	4,750

EBITA

SEKm	2212	2112	2022:4	2021:4
Operating profit	9,479	13,199	3,471	2,754
-Amortization of acquisition-related intangible assets	1,116	852	290	250
-Items affecting comparability - impairment of acquisition-related intangible assets	292	0	29	0
Operating profit before amortization and impairment of acquisition-related intangible assets (EBITA)	10,887	14,051	3,790	3,004
EBITA margin (%)	7.0	11.5	8.6	8.8
-Items affecting comparability - cost of goods sold	1,899	146	302	82
-Items affecting comparability - sales, general and administration	272	-517	-8	-9
Adjusted EBITA	13,058	13,680	4,084	3,077
Adjusted EBITA margin (%)	8.4	11.2	9.3	9.0

Operating cash flow

SEKm	2212	2112	2022:4	2021:4
Health & Medical				
Operating cash surplus	3,789	4,629	960	1,137
Change in working capital	-831	-103	38	47
Investment in non-current assets, net	-784	-761	-244	-164
Restructuring costs, etc.	168	88	69	47
Operating cash flow before investments in operating assets through leases	2,342	3,853	823	1,067
Investment in operating assets through leases	-50	-21	-1	-29
Operating cash flow	2,292	3,832	822	1,038
Consumer Goods				
Operating cash surplus	11,595	11,632	3,408	2,643
Change in working capital	-1,719	34	-811	921
Investment in non-current assets, net	-4,103	-4,581	-1,320	-1,335
Restructuring costs, etc.	-373	-457	-244	-205
Operating cash flow before investments in operating assets through leases	5,400	6,628	1,033	2,024
Investment in operating assets through leases	-419	-300	-67	-220
Operating cash flow	4,981	6,328	966	1,804
Professional Hygiene				
Operating cash surplus	6,386	4,782	2,023	1,233
Change in working capital	-1,062	-705	-60	141
Investment in non-current assets, net	-1,213	-941	-402	-337
Restructuring costs, etc.	-636	-466	-292	-139
Operating cash flow before investments in operating assets through leases	3,475	2,670	1,269	898
Investment in operating assets through leases	-78	-158	-10	-144
Operating cash flow	3,397	2,512	1,259	754

Sales growth

SEKm	2212	2022:4
Health & Medical		
Organic sales growth	1,576	267
Acquisitions	512	105
Sales growth including organic sales growth and acquisitions	2,088	372
Divestments	-100	-26
Exchange rate effect ¹	1,566	527
Recognized change	3,554	873
Consumer Goods		
Organic sales growth	11,629	3,282
Acquisitions	1,347	421
Sales growth including organic sales growth and acquisitions	12,976	3,703
Divestments	-8	0
Exchange rate effect ¹	7,833	2,513
Recognized change	20,801	6,216
Professional Hygiene		
Organic sales growth	5,975	1,375
Acquisitions	549	41
Sales growth including organic sales growth and acquisitions	6,524	1,416
Divestments	0	0
Exchange rate effect ¹	3,447	1,134
Recognized change	9,971	2,550
Essity		
Organic sales growth	19,161	4,894
Acquisitions	2,407	566
Sales growth including organic sales growth and acquisitions	21,568	5,460
Divestments	-109	-27
Exchange rate effect ¹	12,847	4,175
Recognized change	34,306	9,608

¹Consists solely of currency translation effects

6 SUPPLEMENTARY INFORMATION

In 2022, Essity had sales in approximately 150 countries and the number of employees amounted to about 48,000.

Net sales 2022 by category

Health and Medical	16%
of which	
Incontinence Products Health Care	9%
Medical Solutions	7%
Consumer Goods	61%
of which	
Incontinence Products Retail	7%
Feminine Care	7%
Baby Care	6%
Consumer Tissue	41%
Professional Hygiene	23%

Net sales 2022 by region

Europe	53%
Asia	17%
Latin America	14%
North America	13%
Other	3%

Gender distribution at management levels

	2022
Share/number of women on the Board elected by the Annual General Meeting	40% / 4 (10)
Share/number of women on the Board elected by employee organizations	33% / 1 (3)
Share/number of women in the Executive Management Team	33% / 4 (12)
Share/number of women in senior management	35% / 38 (109)
Share/number of women in middle management	31% / 209 (666)

Essity's target is that gender distribution at all management levels (Executive Management Team, senior management, middle management) is to be within the interval 40/60% no later than 2025. The target is reported at an aggregate outcome level for the three management levels and the outcome for 2022 was 32%.

Health and safety

Essity's workplace safety target is to achieve a reduction in the total recordable incident rate (TRI-R) of 75% by 2025 compared with 2019. Total recordable incidents (TRI) include lost time accidents (LTA), restricted work cases (RWC) and medical treatment cases (MTC). The outcome for 2022 was a decrease of 39% compared with 2019. The figures pertain to wholly owned companies¹⁾ of Essity and exclude sales and administrative offices.

	2022
Total recordable incident rate (TRI-R, TRI / millions of hours worked)	4.3

Science Based Targets

Essity's targets to reduce greenhouse gas emissions were approved by the Science Based Targets initiative in 2018. In terms of energy consumption (Scope 1 and 2), Essity has undertaken to reduce greenhouse gas emissions by 35% by 2030 compared with 2016. The outcome for 2022 was -18% for Scope 1 and 2.

Essity has, moreover, undertaken to reduce greenhouse gas emissions from the most important purchased raw materials, transportation, waste arising from operations and handling at the end of the life cycle of sold products (Scope 3) by 18% by 2030 compared with 2016. The outcome is reported with a delay of one year and will be presented in conjunction with the Annual and Sustainability Report for 2022. Targets and outcomes relate to wholly owned companies.

	2022
Scope 1, CO ₂ e, ktons	1,395
Scope 2, CO ₂ e, ktons	1,209

¹⁾ Includes Vinda's production facilities in Malaysia and Taiwan