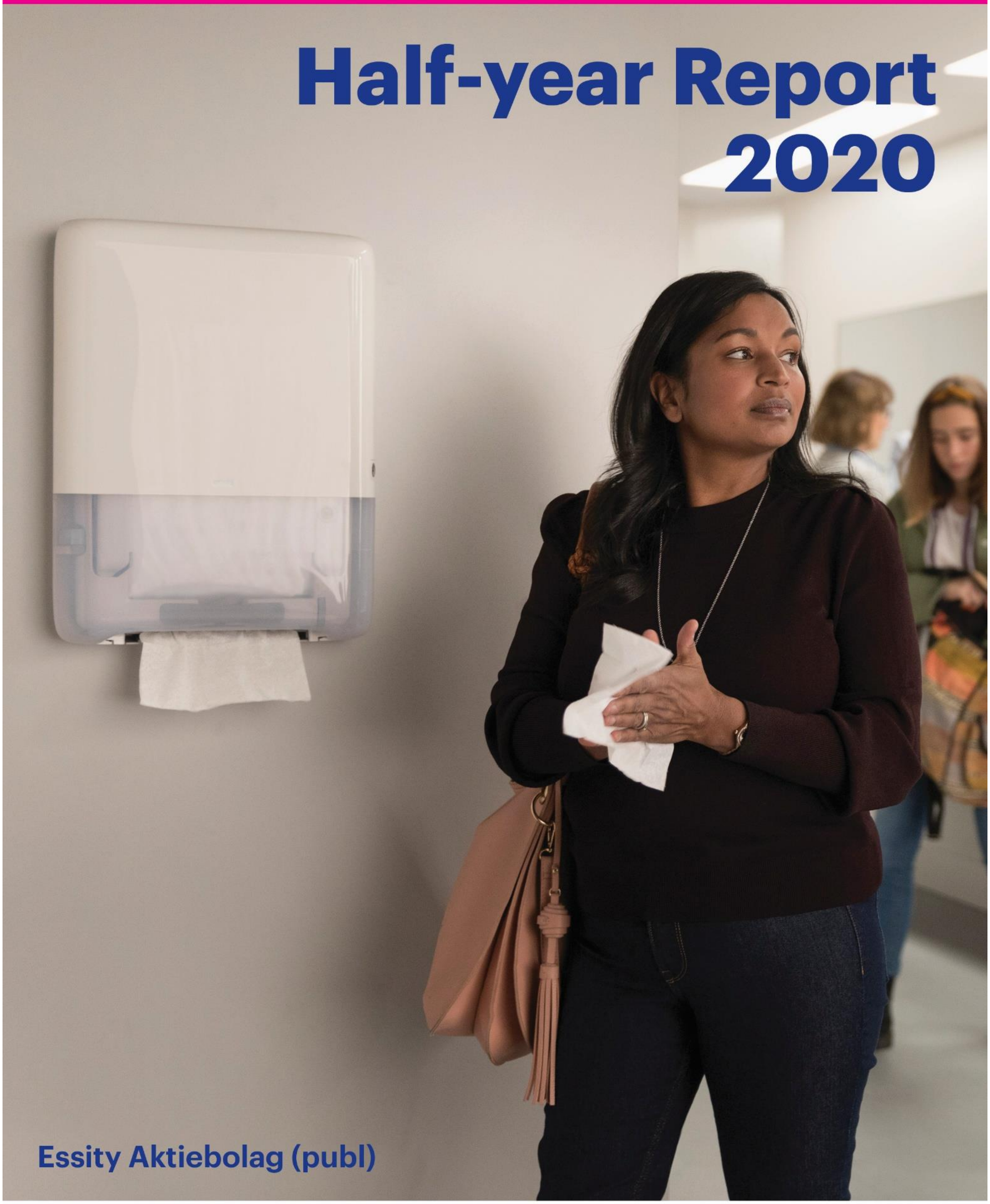
Half-year Report 2020



Essity Aktiebolag (publ)

JANUARY 1 – JUNE 30, 2020

(compared with the corresponding period a year ago)

- Net sales declined 1.0% to SEK 62,119m (62,724)
- Organic net sales declined 0.9%
- Essity has increased market shares in many markets and increased online sales
- Sales were negatively impacted by the COVID-19 pandemic and related lockdowns
- In emerging markets, which accounted for 36% of net sales, organic net sales increased 2.3%
- Operating profit before amortization of acquisition-related intangible assets (EBITA) increased 43% to SEK 9,159m (6,412)
- Adjusted EBITA increased 32% to SEK 9,115m (6,922)
- Adjusted EBITA margin increased 3.7 percentage points to 14.7% (11.0)
- Profit for the period increased 38% to SEK 6,118m (4,430)
- Earnings per share increased 32% to SEK 7.58 (5.73)
- Adjusted earnings per share increased 20% to SEK 7.95 (6.60)
- Cash flow from current operations increased 19% to SEK 6,361m (5,336)

EARNINGS TREND

SEKm	2006	1906	%	2020:2	2019:2	%
Net sales	62,119	62,724	-1	28,407	32,068	-11
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	9,115	6,922	32	3,782	3,732	1
Operating profit before amortization of acquisition-related intangible assets (EBITA)	9,159	6,412	43	3,843	3,410	13
Amortization of acquisition-related intangible assets	-409	-380		-208	-193	
Adjusted operating profit[1]	8,706	6,542	33	3,574	3,539	1
Items affecting comparability	44	-510		61	-322	
Operating profit	8,750	6,032	45	3,635	3,217	13
Financial items	-602	-686		-283	-344	
Profit before tax	8,148	5,346	52	3,352	2,873	17
Adjusted Profit before tax[1]	8,104	5,856	38	3,291	3,195	3
Income taxes	-2,030	-916		-844	-372	
Profit for the period	6,118	4,430	38	2,508	2,501	0
Earnings per share, SEK	7.58	5.73		2.97	3.24	
Adjusted earnings per share, SEK[2]	7.95	6.60		3.12	3.74	

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

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

SUMMARY OF THE SECOND QUARTER 2020

The Group's net sales declined 11.4% in the second quarter of 2020 compared with the corresponding period a year ago. Organic net sales declined 9.3%, of which volume accounted for -9.8% and price/mix for 0.5%. In mature markets, organic net sales declined 14.7%. In emerging markets, which accounted for 39% of net sales, organic net sales increased 0.6%. Adjusted EBITA for the second quarter of 2020 increased 1% compared with the same period a year ago. The adjusted EBITA margin increased by 1.7 percentage points to 13.3%.

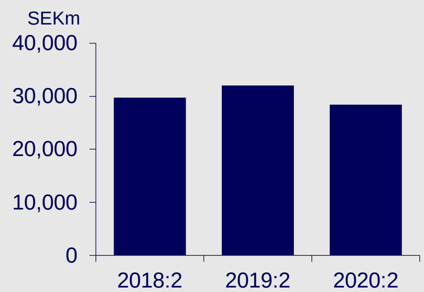
Essity has increased market shares in many markets through high delivery reliability and successful product launches as well as increased activity and strengthened presence in digital sales channels. The Group's online sales grew by approximately 3.5 percentage points as a share of net sales and accounted for about 14%.

Sales were negatively affected by the COVID-19 pandemic and related lockdowns as well as inventory adjustments following the stockpiling that took place among consumers and distributors in March 2020. The lockdowns mainly resulted in a temporary reduction in demand in Professional Hygiene and Medical Solutions. For Professional Hygiene, this is mainly the result of the negative effect of the lockdowns primarily in the customer segments of hotel, restaurant, catering, commercial buildings as well as schools and universities. Meanwhile, Professional Hygiene increased its sales of dispensers as a result of a greater focus on hygiene. In the product categories of Incontinence Products, Feminine Care and Baby Care there was a temporary negative impact on demand as consumption declined slightly as a result of the lockdowns as consumers spent more time in the home.

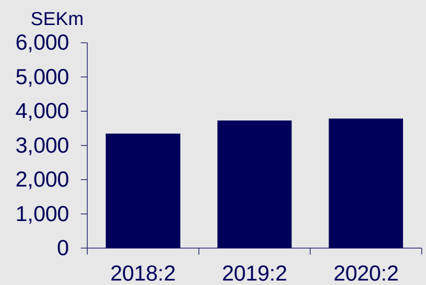
The Group's adjusted gross margin for the second quarter of 2020 increased 3.2 percentage points to 32.2% compared with the corresponding period a year ago. The gross margin was positively impacted by a better mix, lower raw material and energy costs and costs savings. Lower raw materials and energy costs increased the gross margin by 5.1 percentage points. The lower raw material costs were primarily the result of lower pulp prices. Continuous cost savings amounted to SEK 127m. Lower volumes and higher distribution costs for the Group and lower prices for the business area Consumer Tissue had a negative impact on the gross margin. The Group's adjusted EBITA margin rose 1.7 percentage points to 13.3%. Although sales and marketing cost declined somewhat during the quarter, they increased as a share of net sales due to lower sales. Adjusted return on capital employed rose 0.2 percentage points to 13.1 percent. Operating cash flow increased 17%. Earnings per share amounted to SEK 2.97.

Eventually, the COVID-19 pandemic may lead to increased demand for the company's leading hygiene and health products as a result of increased awareness of the importance of hygiene and health. Essity is further developing the company's offering to raise the hygiene standard in the world.

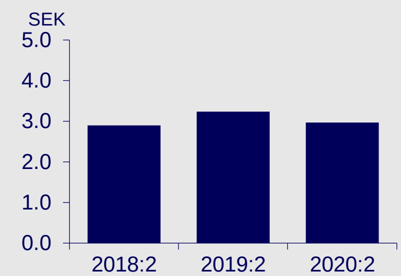
Net sales



Adjusted EBITA



Earnings per share



Excluding items affecting comparability; for amounts see page 12.

ADJUSTED EARNINGS TREND

SEKm	2006	1906	%	2020:2	2019:2	%
Net sales	**62,119**	62,724	-1	**28,407**	32,068	-11
Cost of goods sold[1]	-41,923	-45,086		-19,260	-22,779	
Adjusted gross profit[1]	**20,196**	17,638	15	**9,147**	9,289	-2
Sales, general and administration[1]	-11,081	-10,716		-5,365	-5,557	
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	**9,115**	6,922	32	**3,782**	3,732	1
Amortization of acquisition-related intangible assets	-409	-380		-208	-193	
Adjusted operating profit[1]	**8,706**	6,542	33	**3,574**	3,539	1
Financial items	-602	-686		-283	-344	
Adjusted profit before tax[1]	**8,104**	5,856	38	**3,291**	3,195	3
Adjusted Income taxes[1]	-2,012	-1,079		-823	-482	
Adjusted profit for the period[1]	**6,092**	4,777	28	**2,468**	2,713	-9

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

Adjusted Margins (%)						
Gross margin[1]	**32.5**	28.1		**32.2**	29.0	
EBITA margin[1]	**14.7**	11.0		**13.3**	11.6	
Operating margin[1]	**14.0**	10.4		**12.6**	11.0	
Financial net margin	-1.0	-1.1		-1.0	-1.1	
Profit margin[1]	**13.0**	9.3		**11.6**	9.9	
Income taxes[1]	-3.2	-1.7		-2.9	-1.5	
Net margin[1]	**9.8**	7.6		**8.7**	8.4	

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

ADJUSTED EBITA BY BUSINESS AREA

SEKm	2006	1906	%	2020:2	2019:2	%
Personal Care	3,477	3,251	7	1,438	1,711	-16
Consumer Tissue	4,216	2,235	89	2,124	1,166	82
Professional Hygiene	1,874	1,767	6	481	1,026	-53
Other	-452	-331		-261	-171	
Total[1]	**9,115**	6,922	32	**3,782**	3,732	1

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

ADJUSTED OPERATING PROFIT BY BUSINESS AREA

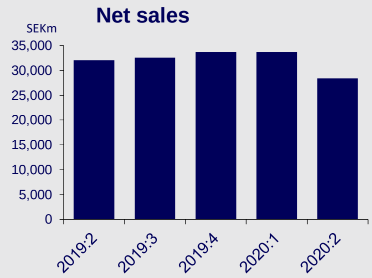
SEKm	2006	1906	%	2020:2	2019:2	%
Personal Care	3,091	2,893	7	1,241	1,529	-19
Consumer Tissue	4,212	2,232	89	2,122	1,164	82
Professional Hygiene	1,855	1,748	6	472	1,016	-54
Other	-452	-331		-261	-170	
Total[1]	**8,706**	6,542	33	**3,574**	3,539	1

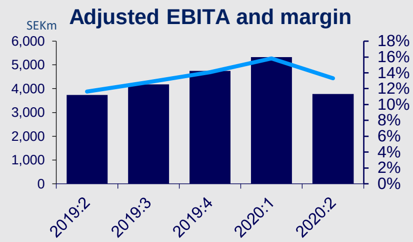
[1]Excluding items affecting comparability; for amounts see page 12.

OPERATING CASH FLOW BY BUSINESS AREA

SEKm	2006	1906	%	2020:2	2019:2	%
Personal Care	3,336	2,849	17	1,646	1,523	8
Consumer Tissue	4,522	2,027	123	2,429	1,374	77
Professional Hygiene	1,631	1,358	20	769	1,147	-33
Other	-662	-356		-498	-316	
Total	**8,827**	5,878	50	**4,346**	3,728	17

GROUP



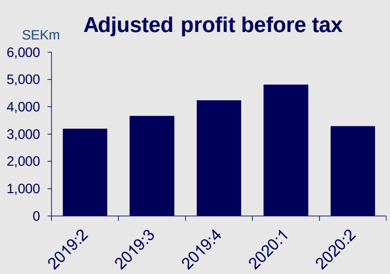


Change in net sales (%)

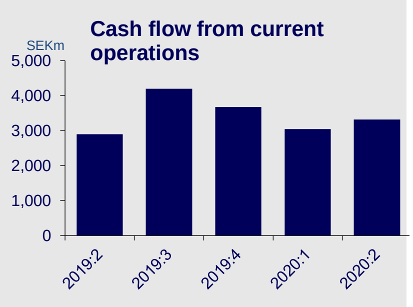
	2006 vs 1906	20:2 vs 19:2
Total	**-1.0**	**-11.4**
Volume	-2.1	-9.8
Price/mix	1.2	0.5
Currency	0.0	-2.0
Acquisitions	0.1	0.1
Divestments	-0.2	-0.2

Change in adjusted EBITA (%)

	2006 vs 1906	20:2 vs 19:2
Total	**32**	**1**
Volume	-8	-28
Price/mix	8	2
Raw materials	40	35
Energy	4	5
Currency	1	-2
Other	-13	-11



Excluding items affecting comparability



NET SALES AND EARNINGS

January–June 2020 compared with the corresponding period a year ago

Net sales declined 1.0% compared with the corresponding period a year ago to SEK 62,119m (62,724). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 0.9%, of which volume accounted for -2.1% and price/mix for 1.2%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns. Organic net sales declined 2.6% in mature markets and increased 2.3% in emerging markets. Emerging markets accounted for 36% of net sales. Acquisitions increased net sales by 0.1% and were largely attributable to the acquisition of the medical solutions company ABIGO Medical AB. Divestment of a partly owned company in Turkey reduced net sales by 0.2%.

The Group's adjusted gross margin increased 4.4 percentage points to 32.5% (28.1) compared with the corresponding period a year ago. The gross margin was positively impacted by a better mix, lower raw material and energy costs and cost savings. Lower raw material and energy costs increased the gross margin by 4.9 percentage points. The lower raw material costs were primarily the result of lower pulp prices. Continuous cost savings amounted to SEK 387m. Lower volumes and higher distribution costs for the Group and lower prices for the business area Consumer Tissue had a negative impact on the gross margin. The Group's adjusted EBITA margin rose 3.7 percentage points to 14.7% (11.0). Investments in growth increased sales and marketing costs also as a share of net sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 32% (30% excluding currency translation effects, acquisitions and divestments) to SEK 9,115m (6,922).

Items affecting comparability amounted to SEK 44m (-510) and were impacted positively as a result of the Dutch pension plan being reclassified from a defined benefit to a defined contribution scheme during the second quarter 2020 due to a contract renegotiation. Restructuring costs had a negative impact.

Financial items decreased to SEK -602m (-686). Lower interest and lower average net debt had a positive impact.

Adjusted profit before tax increased 38% (36% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 8,104m (5,856).

The tax expense, excluding effects of items affecting comparability, was SEK 2,012m (1,079).

Adjusted profit for the period increased 28% (26% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 6,092m (4,777).

Profit for the period increased 38% (36% excluding currency translation effects, acquisitions and divestments) to SEK 6,118m (4,430). Earnings per share were SEK 7.58 (5.73). The adjusted earnings per share were SEK 7.95 (6.60).

The adjusted return on capital employed was 15.6% (11.9). The adjusted return on equity was 19.5% (18.5).

Second quarter of 2020 compared with the corresponding period a year ago

Net sales declined 11.4% compared with the corresponding period a year ago to SEK 28,407m (32,068). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 9.3%, of which volume accounted for -9.8% and price/mix for 0.5%. Sales were negatively affected by the COVID-19 pandemic and related lockdowns as well as inventory adjustments following the stockpiling that took place among consumers and distributors in March 2020. Organic net sales declined 14.7% in mature markets and increased 0.6% in emerging markets. Emerging markets accounted for 39% of net sales. Exchange rate effects reduced net sales by 2.0%. Acquisitions increased net sales by 0.1% and is largely attributable to the acquisition of ABIGO Medical AB. Divestment of a partly owned company in Turkey reduced net sales by 0.2%.

The Group's adjusted gross margin for the second quarter of 2020 increased 3.2 percentage points to 32.2% (29.0) compared with the corresponding period a year ago. The gross margin was positively impacted by a better mix, lower raw material and energy costs and cost savings. Lower raw material and energy costs increased the gross margin by 5.1 percentage points. The lower raw material costs were primarily the result of lower pulp prices. Continuous cost savings amounted to SEK 127m. Lower volumes and higher distribution costs for the Group and lower prices for the business area Consumer Tissue had a negative impact on the gross margin. The Group's adjusted EBITA margin rose 1.7 percentage points to 13.3% (11.6). Although sales and marketing cost declined somewhat during the quarter, they increased as a share of net sales due to lower sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 1% (3% excluding currency translation effects, acquisitions and divestments) to SEK 3,782m (3,732).

Adjusted profit before tax increased 3% (5% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 3,291m (3,195).

Profit for the period was level with the preceding year (increased 2% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 2,508m (2,501). Earnings per share were SEK 2.97 (3.24). The adjusted earnings per share were SEK 3.12 (3.74). A revaluation of deferred tax reduced income tax by SEK 253m in the second quarter of 2019.

The adjusted return on capital employed was 13.1% (12.9). The adjusted return on equity was 15.1% (18.9).

CASH FLOW AND FINANCING

January–June 2020 compared with the corresponding period a year ago

The operating cash surplus amounted to SEK 12,670m (10,345). The cash flow effect of changes in working capital was SEK -1,019m (-1,090). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -2,338m (-2,706). Operating cash flow before investments in operating assets through leases amounted to SEK 8,997m (6,046). Investments in operating assets through leases amounted to SEK -170m (-168). Operating cash flow was SEK 8,827m (5,878).

Financial items decreased to SEK -602m (-686). Lower interest and lower average net debt had a positive impact.

Tax payments had a negative impact on cash flow of SEK -1,890m (137). A decision in a tax case in Sweden reduced the tax payment by approximately SEK 1.1bn in 2019.

The net sum of acquisitions and divestments was SEK -716m (46). Net cash flow totaled SEK 5,586m (1,125).

Net debt decreased by SEK 2,836m during the period and amounted to SEK 48,104m. Excluding pension liabilities, net debt amounted to SEK 42,547m. Net cash flow reduced net debt by SEK 5,586m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, increased net debt by SEK 3,123m. Exchange rate movements reduced net debt by SEK 665m. Investments in non-operating assets through leases increased net debt by SEK 292m. The debt/equity ratio was 0.75 (1.06). Excluding pension liabilities, the debt/equity ratio was 0.66 (0.97). The debt payment capacity was 42% (27). Net debt in relation to adjusted EBITDA amounted to 1.93 (3.06).

EQUITY

January–June 2020

The Group's equity increased by SEK 1,493m during the period, to SEK 64,294m. Net profit for the period increased equity by SEK 6,118m. Equity decreased net after tax by SEK 2,460m as a result of fair value measurement of pension assets and updated assumptions and assessments that affect the valuation of the pension liability. Fair value measurement of financial instruments increased equity by SEK 6m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, reduced equity by SEK 2,006m. Other items decreased equity by SEK 165m.

TAX

January–June 2020

A tax expense of SEK 2,012m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 24.8% for the period. The tax expense including items affecting comparability was SEK 2,030m, corresponding to a tax rate of 24.9% for the period.

PERSONAL CARE

SEKm	2006	1906	%	2020:2	2019:2	%
Net sales	**23,320**	23,699	-2	**10,651**	12,164	-12
Adjusted gross profit margin, %*	**40.8**	39.0		**40.6**	39.3	
Adjusted EBITA*	**3,477**	3,251	7	**1,438**	1,711	-16
Adjusted EBITA margin, %*	**14.9**	13.7		**13.5**	14.1	
Adjusted operating profit*	**3,091**	2,893	7	**1,241**	1,529	-19
Adjusted operating margin, %*	**13.3**	12.2		**11.7**	12.6	
Adjusted return on capital employed, %*	**15.5**	14.9		**12.8**	15.2	
Operating cash flow	**3,336**	2,849		**1,646**	1,523	

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

January–June 2020 compared with the corresponding period a year ago

Net sales declined 1.6% to SEK 23,320m (23,699). Organic net sales declined 0.5%, of which volume accounted for -1.8% and price/mix for 1.3%. Organic net sales in mature markets declined 2.6%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 3.4%. Exchange rate effects reduced net sales by 0.7%. The divestment of a partly owned company in Turkey reduced net sales by 0.6%. Acquisitions increased net sales by 0.2% and related mainly to ABIGO Medical AB.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 4.1%. Growth was related to Western Europe, North America and emerging markets. In Medical Solutions, organic net sales decreased 13.2%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns. For Baby Care, organic net sales declined 5.3%, related to Western Europe and emerging markets. For Feminine Care, organic net sales increased 7.5%, related to Western Europe and emerging markets.

The adjusted gross margin increased 1.8 percentage points to 40.8% (39.0). The margin was positively impacted by higher prices, a better mix, lower raw material costs and cost savings. Lower raw material costs increased the margin by 1.4 percentage points. Lower volumes and higher distribution costs had a negative impact on the margin. The adjusted EBITA margin increased by 1.2 percentage points to 14.9% (13.7). Investments to increase growth increased sales and marketing costs, also as a share of net sales. Adjusted EBITA increased 7% (6% excluding currency translation effects, acquisitions and divestments) to SEK 3,477m (3,251). The operating cash surplus amounted to SEK 4,454m (4,261).

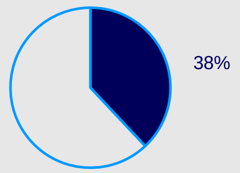
Second quarter of 2020 compared with the corresponding period a year ago

Net sales declined 12.4% to SEK 10,651m (12,164). Organic net sales declined 9.4%, of which volume accounted for -10.2% and price/mix for 0.8%. Organic net sales in mature markets declined 12.2%. In emerging markets, which accounted for 37% of net sales, organic net sales declined 4.1%. Exchange rate effects reduced net sales by 2.9%. Divestments reduced net sales by 0.4%. Acquisitions increased net sales by 0.3%.

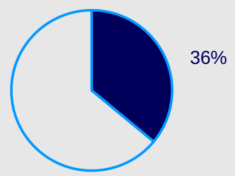
Sales were negatively affected by the COVID-19 pandemic and related lockdowns as well as inventory adjustments following the stockpiling that took place among consumers in March 2020. For Incontinence Products, with the globally leading TENA brand, organic net sales declined 3.2%. The decline was related to Western Europe and Latin America. In Medical Solutions, organic net sales decreased 25.6%. The decline is related to Western Europe, North America and emerging markets. For Baby Care, organic net sales declined 15.9%, related to Western Europe and emerging markets. For Feminine Care, organic net sales declined 0.2%, primarily related to Western Europe. Net sales increased in emerging markets.

The adjusted gross margin increased 1.3 percentage points to 40.6% (39.3). The margin was positively impacted by higher prices, lower raw material costs and cost savings. Lower raw material costs increased the margin by 1.5 percentage points. Lower volumes and higher distribution costs had a negative impact on the margin. The adjusted EBITA margin decreased by 0.6 percentage points to 13.5% (14.1). Although sales and marketing cost declined, they increased as a share of net sales due to lower sales. Adjusted EBITA declined 16% (14% excluding currency translation effects, acquisitions and divestments) to SEK 1,438m (1,711).

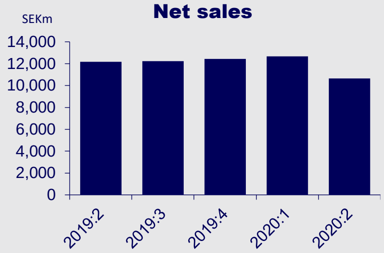
Share of Group, net sales 2006



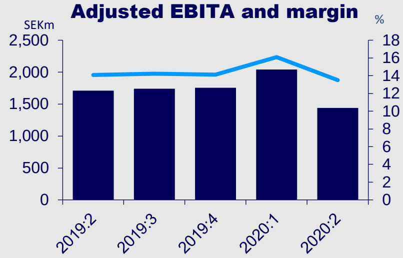
Share of Group, adjusted EBITA 2006



Net sales



Adjusted EBITA and margin



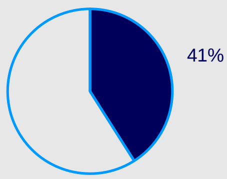
Change in net sales (%)

	2006 vs 1906	20:2 vs 19:2
Total	**-1.6**	**-12.4**
Volume	-1.8	-10.2
Price/mix	1.3	0.8
Currency	-0.7	-2.9
Acquisitions	0.2	0.3
Divestments	-0.6	-0.4

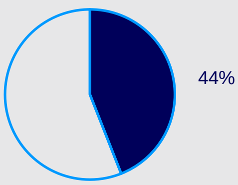
Change in adjusted EBITA (%)

	2006 vs 1906	20:2 vs 19:2
Total	**7**	**-16**
Volume	-7	-30
Price/mix	7	4
Raw materials	10	10
Energy	0	0
Currency	0	-2
Other	-3	2

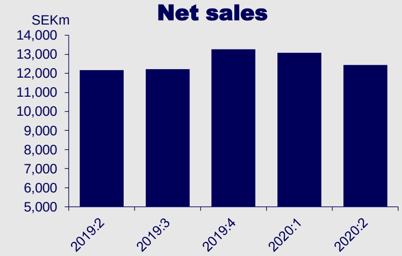
Share of Group, net sales 2006



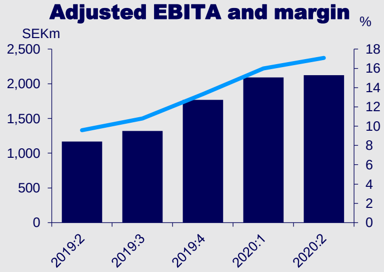
Share of Group, adjusted EBITA 2006



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	2006 vs 1906	20:2 vs 19:2
Total	**4.5**	**2.2**
Volume	4.3	4.9
Price/mix	0.0	-0.6
Currency	0.2	-2.1
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	2006 vs 1906	20:2 vs 19:2
Total	**89**	**82**
Volume	11	14
Price/mix	0	-10
Raw materials	86	82
Energy	10	12
Currency	3	0
Other	-21	-16

CONSUMER TISSUE

SEKm	2006	1906	%	2020:2	2019:2	%
Net sales	**25,517**	24,415	5	**12,437**	12,167	2
Adjusted gross profit margin, %*	**27.2**	19.9		**28.2**	21.0	
Adjusted EBITA*	**4,216**	2,235	89	**2,124**	1,166	82
Adjusted EBITA margin, %*	**16.5**	9.2		**17.1**	9.6	
Adjusted operating profit*	**4,212**	2,232	89	**2,122**	1,164	82
Adjusted operating margin, %*	**16.5**	9.1		**17.1**	9.6	
Adjusted return on capital employed, %*	**15.4**	8.0		**18.1**	9.7	
Operating cash flow	**4,522**	2,027		**2,429**	1,374	

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

January–June 2020 compared with the corresponding period a year ago

Net sales increased 4.5% to SEK 25,517m (24,415). Organic net sales increased 4.3%. Volumes increased by 4.3% and the price/mix was stable as a result of a better mix and lower prices. Organic net sales increased 3.3% in mature markets. In emerging markets, which accounted for 46% of net sales, organic net sales increased by 5.8%. Exchange rate effects increased net sales by 0.2%.

The adjusted gross margin increased 7.3 percentage points to 27.2% (19.9). The gross margin was positively impacted by higher volumes, a better mix, lower raw material and energy costs and cost savings. Lower raw material and energy costs increased the gross margin by 8.3 percentage points. The lower raw material costs were mainly the result of lower pulp prices. Higher distribution costs and lower prices had a negative impact on the margin. The adjusted EBITA margin increased by 7.3 percentage points to 16.5% (9.2). Investments to increase growth increased sales and marketing costs, although as a share of net sales they were level with the corresponding period a year ago.

Adjusted EBITA increased 89% (86% excluding currency translation effects, acquisitions and divestments) to SEK 4,216m (2,235).

The operating cash surplus totaled SEK 5,632m (3,559).

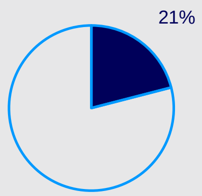
Second quarter of 2020 compared with the corresponding period a year ago

Net sales increased 2.2% to SEK 12,437m (12,167). Organic net sales increased 4.3%. Volumes increased by 4.9% and the price/mix declined by 0.6% as a result of lower prices and a better mix. Organic net sales declined 2.3% in mature markets. In emerging markets, which accounted for 49% of net sales, organic net sales increased by 12.4%. Exchange rate effects reduced net sales by 2.1%.

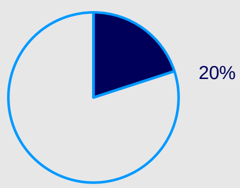
The adjusted gross margin increased 7.2 percentage points to 28.2% (21.0). The gross margin was positively impacted by higher volumes, a better mix and lower raw material and energy costs. Lower raw material and energy costs increased the gross margin by 8.6 percentage points. The lower raw material costs were mainly the result of lower pulp prices. Higher distribution costs and lower prices had a negative impact on the margin. The adjusted EBITA margin increased by 7.5 percentage points to 17.1% (9.6). Investments to increase growth increased sales and marketing costs, although they declined as a share of net sales.

Adjusted EBITA increased 82% (82% excluding currency translation effects, acquisitions and divestments) to SEK 2,124m (1,166).

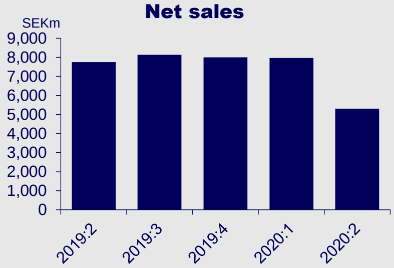
Share of Group, net sales 2006



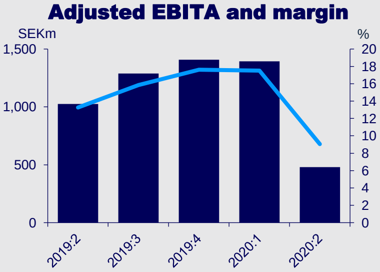
Share of Group, adjusted EBITA 2006



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	2006 vs 1906	20:2 vs 19:2
Total	**-9.2**	**-31.3**
Volume	-13.4	-32.2
Price/mix	2.9	1.5
Currency	1.3	-0.6
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	2006 vs 1906	20:2 vs 19:2
Total	**6**	**-53**
Volume	-30	-67
Price/mix	19	9
Raw materials	32	18
Energy	2	2
Currency	1	-3
Other	-18	-12

PROFESSIONAL HYGIENE

SEKm	2006	1906	%	2020:2	2019:2	%
Net sales	**13,272**	14,609	-9	**5,315**	7,742	-31
Adjusted gross profit margin, %*	**28.1**	24.3		**24.7**	25.4	
Adjusted EBITA*	**1,874**	1,767	6	**481**	1,026	-53
Adjusted EBITA margin, %*	**14.1**	12.1		**9.0**	13.3	
Adjusted operating profit*	**1,855**	1,748	6	**472**	1,016	-54
Adjusted operating margin, %*	**14.0**	12.0		**8.9**	13.1	
Adjusted return on capital employed, %*	**19.1**	16.7		**8.1**	16.9	
Operating cash flow	**1,631**	1,358		**769**	1,147	

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

January–June 2020 compared with the corresponding period a year ago

Net sales declined 9.2% to SEK 13,272m (14,609). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 10.5%. Sales were negatively impacted by the COVID-19 pandemic and related lockdowns. Volumes declined by 13.4%. The price/mix increased 2.9% as a result of higher prices and a better mix. Organic net sales declined 9.3% in mature markets. In emerging markets, which accounted for 18% of net sales, organic net sales declined by 14.9%. Exchange rate effects increased net sales by 1.3%.

The adjusted gross margin increased 3.8 percentage points to 28.1% (24.3). The gross margin was positively impacted by higher prices, a better mix, lower raw material and energy costs and cost savings. Lower raw material and energy costs increased the gross margin by 4.5 percentage points. The lower raw material costs were mainly the result of lower prices for recovered paper and pulp. Lower volumes and higher distribution costs had a negative impact on the margin. The adjusted EBITA margin increased by 2.0 percentage points to 14.1% (12.1). Investments to increase growth increased sales and marketing costs, also as a share of net sales.

Adjusted EBITA increased 6% (6% excluding currency translation effects, acquisitions and divestments) to SEK 1,874m (1,767). The operating cash surplus was SEK 2,963m (2,786).

Second quarter of 2020 compared with the corresponding period a year ago

Net sales declined 31.3% to SEK 5,315m (7,742). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 30.7%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns' negative impact primarily in the customer segments of hotel, restaurant, catering, commercial buildings as well as schools and universities. Furthermore, sales were negatively impacted by inventory adjustments following stockpiling among distributors in March 2020. Meanwhile, sales of dispensers increased as a result of a greater focus on hygiene. Volumes declined by 32.2%. The price/mix increased 1.5% as a result of higher prices mainly in Europe and North America and a better mix. Organic net sales declined 30.8% in mature markets. In emerging markets, which accounted for 19% of net sales, organic net sales declined by 29.5%. Exchange rate effects reduced net sales by 0.6%.

The adjusted gross margin declined 0.7 percentage points to 24.7% (25.4). The gross margin was positively impacted by higher prices, a better mix, lower raw material and energy costs and cost savings. Lower raw material and energy costs increased the gross margin by 3.9 percentage points. The lower raw material costs were mainly the result of lower pulp prices. Lower volumes and higher distribution costs had a negative impact on the margin. The adjusted EBITA margin declined by 4.3 percentage points to 9.0% (13.3). While sales and marketing costs declined, they increased as a share of net sales due to lower sales.

Adjusted EBITA declined 53% (50% excluding currency translation effects, acquisitions and divestments) to SEK 481m (1,026).

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

Stockholm, July 13, 2020

Essity Aktiebolag (publ)

Ewa Björling Board member	Pär Boman Chairman of the Board	Maija-Liisa Friman Board member	Annemarie Gardshol Board member	Magnus Groth President and CEO, Board member
Susanna Naumanen Board member, appointed by the employees	Bert Nordberg Board member	Louise Svanberg Board member	Örjan Svensson Board member, appointed by the employees	Lars Rebien Sørensen Board member
	Barbara Milian Thoralfsson Board member		Niclas Thulin Board member, appointed by the employees	

Review report

Essity Aktiebolag (publ), corporate identity number 556325-5511

Introduction

We have reviewed the condensed interim report for Essity Aktiebolag (publ) as at June 30, 2020 and for the six months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of the review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 Review of Interim Financial Statements Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Stockholm, July 13, 2020

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

DISTRIBUTION OF SHARES

June 30, 2020	Class A	Class B	Total
Registered number of shares	61,736,963	640,605,526	702,342,489

At the end of the period, the proportion of Class A shares was 8.8%. During the second quarter, 2,196,679 Class A shares were converted into Class B shares at the request of shareholders. The total number of votes in the company amounts to 1,257,975,156.

FUTURE REPORTS

In 2020, interim reports will be published on October 22. The Year-end Report for 2020 will be published on January 27, 2021.

INVITATION TO PRESENTATION OF HALF-YEAR REPORT FOR 2020

In conjunction with publication, a telephone and web presentation will be held where President and CEO Magnus Groth will present the report and answer questions.

Presentation
Date: Monday, July 13, 2020
Time: 9:00 a.m. CET
Link to web presentation: https://essity.videosync.fi/2020-07-13
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 presentation. Specify “Essity” or conference ID no. 6839227.

For further information, please contact:

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

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

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

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

NB:

This information is such that Essity Aktiebolag (publ) is obligated to make public pursuant to the EU Market Abuse Regulation and the Swedish Securities Markets Act. This report has been prepared in both Swedish and English versions. In case of variations in the content between the two versions, the Swedish version shall govern. The information was submitted for publication, through the agency of the contact person set out below, at 07:00 a.m. CET on July 13, 2020. This interim report has been reviewed by the company’s auditors.

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

CONDENSED STATEMENT OF PROFIT OR LOSS

SEKm	2020:2	2019:2	2020:1	2006	1906
Net sales	**28,407**	32,068	33,712	**62,119**	62,724
Cost of goods sold[1,2]	-19,260	-22,779	-22,663	-41,923	-45,086
Items affecting comparability - cost of goods sold[2]	-100	-156	-9	-109	-255
Gross profit	**9,047**	9,133	11,040	**20,087**	17,383
Sales, general and administration[1,2]	-5,381	-5,553	-5,749	-11,130	-10,739
Items affecting comparability - sales, general and administration[2]	161	-166	-8	153	-255
Share of profits of associates and joint ventures	16	-4	33	49	23
Operating profit before amortization of acquisition-related intangible assets (EBITA)	**3,843**	3,410	5,316	**9,159**	6,412
Amortization of acquisition-related intangible assets	-208	-193	-201	-409	-380
Operating profit	**3,635**	3,217	5,115	**8,750**	6,032
Financial items	-283	-344	-319	-602	-686
Profit before tax	**3,352**	2,873	4,796	**8,148**	5,346
Income taxes	-844	-372	-1,186	-2,030	-916
Profit for the period	**2,508**	2,501	3,610	**6,118**	4,430
Earnings attributable to:					
Owners of the parent	2,088	2,274	3,235	5,323	4,023
Non-controlling interests	420	227	375	795	407
Earnings per share, SEK - owners of the parent					
- before and after dilution effects	2.97	3.24	4.61	7.58	5.73
Average no. of shares before and after dilution, millions	702.3	702.3	702.3	702.3	702.3
[1]Of which, depreciation/amortization	-1,857	-1,865	-1,884	-3,741	-3,673
[2]Of which, impairment	-112	-55	-4	-116	-66
Gross margin	**31.8**	28.5	32.7	**32.3**	27.7
EBITA margin	**13.5**	10.6	15.8	**14.7**	10.2
Operating margin	12.8	10.0	15.2	14.1	9.6
Financial net margin	-1.0	-1.1	-0.9	-1.0	-1.1
Profit margin	**11.8**	8.9	14.3	**13.1**	8.5
Income taxes	-3.0	-1.2	-3.5	-3.3	-1.5
Net margin	**8.8**	7.7	10.8	**9.8**	7.0
Excluding items affecting comparability:					
Gross margin	**32.2**	29.0	32.8	**32.5**	28.1
EBITA margin	**13.3**	11.6	15.8	**14.7**	11.0
Operating margin	12.6	11.0	15.2	14.0	10.4
Financial net margin	-1.0	-1.1	-0.9	-1.0	-1.1
Profit margin	**11.6**	9.9	14.3	**13.0**	9.3
Income taxes	-2.9	-1.5	-3.5	-3.2	-1.7
Net margin	**8.7**	8.4	10.8	**9.8**	7.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEKm	2020:2	2019:2	2020:1	2006	1906
Profit for the period	**2,508**	2,501	3,610	**6,118**	4,430
Other comprehensive income for the period					
Items that may not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	-1,226	-492	-1,895	-3,121	-835
Fair value through other comprehensive income	5	2	-7	-2	5
Income tax attributable to components in other comprehensive income	302	121	359	661	222
	-919	-369	-1,543	-2,462	-608
Items that have been or may be reclassified subsequently to the income statement					
Cash flow hedges					
Result from remeasurement of derivatives recognized in equity	55	-89	-347	-292	-390
Transferred to profit or loss for the period	176	40	121	297	-14
Translation differences in foreign operations	-4,578	176	2,512	-2,066	2,487
Gains/losses from hedges of net investments in foreign operations	702	4	-626	76	-211
Other comprehensive income from associated companies	-22	1	12	-10	-10
Income tax attributable to components in other comprehensive income	-200	8	195	-5	138
	-3,867	140	1,867	-2,000	2,000
Other comprehensive income for the period, net of tax	**-4,786**	-229	324	**-4,462**	1,392
Total comprehensive income for the period	**-2,278**	2,272	3,934	**1,656**	5,822
Total comprehensive income attributable to:					
Owners of the Parent company	-2,107	2,050	3,253	1,146	5,106
Non-controlling interests	-171	222	681	510	716

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

SEKm	2006	1906
Attributable to owners of the Parent company		
Value, January 1	54,125	47,141
Total comprehensive income for the period	1,146	5,106
Dividend	0	-4,038
Private placement to non-controlling interests	17	1
Transferred to cost of hedged investments	-8	7
Revaluation effect on acquisition of holdings non-controlling interests	-1	0
Value, June 30	**55,279**	48,217
Non-controlling interests		
Value, January 1	8,676	7,758
Total comprehensive income for the period	510	716
Dividend	-222	-221
Private placement to non-controlling interests	16	1
Divestment of non-controlling interests	35	0
Value, June 30	**9,015**	8,254
Total equity, value June 30	**64,294**	56,471

CONSOLIDATED OPERATING CASH FLOW STATEMENT

SEKm	2006	1906
Operating cash surplus	12,670	10,345
Change in working capital	-1,019	-1,090
Investment in non current assets, net	-2,338	-2,706
Restructuring costs, etc.	-316	-503
Operating cash flow before Investments in operating assets through leases	**8,997**	6,046
Investments in operating assets through leases	-170	-168
Operating cash flow	**8,827**	5,878
Financial items	-602	-686
Income taxes paid	-1,890	137
Other	26	7
Cash flow from current operations	**6,361**	5,336
Acquisitions of Group companies and other operations	-715	-10
Divestments of Group companies and other operations	-1	56
Cash flow before transactions with shareholders	**5,645**	5,382
Private placement to non-controlling interest	32	2
Dividend to non-controlling interests	-91	-221
Dividend	0	-4,038
Net cash flow	**5,586**	1,125
Net debt at the start of the period	**-50,940**	-54,404
Changed opening balance for net debt due to IFRS 16 Leases	0	-3,786
Net cash flow	5,586	1,125
Remeasurements to equity	-3,123	-830
Investments in non-operating assets through leases	-292	-211
Translation differences	665	-1,585
Net debt at the end of the period	**-48,104**	-59,691
Debt/equity ratio	**0.75**	1.06
Debt payment capacity, %	**42**	27
Net debt / EBITDA	**1.95**	3.28
Net debt / Adjusted EBITDA	**1.93**	3.06

CONSOLIDATED CASH FLOW STATEMENT

SEKm	2006	1906
Operating activities		
Operating profit	8,750	6,032
Adjustment for non-cash items[1]	3,941	4,181
Interest paid	-579	-607
Interest received	53	50
Other financial items	-171	-232
Change in liabilities relating to restructuring programs, etc.	-501	-363
Paid tax	-1,890	137
Cash flow from operating activities before changes in working capital	**9,603**	9,198
Cash flow from changes in working capital		
Change in inventories	-2,328	-437
Change in operating receivables	1,336	-883
Change in operating liabilities	-28	230
Cash flow from operating activities	**8,583**	8,108
Investing activities		
Acquisitions of Group companies and other operations	-635	-10
Divestments of Group companies and other operations	0	10
Investments in intangible assets and property, plant and equipment	-2,340	-2,741
Sale of property, plant and equipment	10	65
Loans granted to external parties	-122	-135
Paid interest capitalized in intangible asset and property, plant and equipment	-7	-30
Cash flow from investing activities	**-3,094**	-2,841
Financing activities		
Private placement to non-controlling interests	32	2
Dividend	0	-4,038
Loans raised	5,143	1,151
Amortization of debt	-7,894	-1,701
Dividend to non-controlling interests	-91	-221
Cash flow from financing activities	**-2,810**	-4,807
Cash flow for the period	**2,679**	460
Cash and cash equivalents at the beginning of the period	2,928	3,008
Translation differences in cash and cash equivalents	-107	134
Cash and cash equivalents at the end of the period	**5,500**	3,602
Cash flow from operating activities per share, SEK	12.22	11.54
Reconciliation with consolidated operating cash flow statement		
Cash flow for the period	**2,679**	460
Amortization of debt	7,894	1,701
Loans raised	-5,143	-1,151
Loans granted to external parties	122	135
Impact from settlement of pension liability	190	0
Investment through financial lease	-170	-168
Net debt in acquired and divested operations	-81	46
Accrued interest	95	102
Net cash flow according to consolidated operating cash flow statement	**5,586**	1,125

[1] Adjustment for non-cash items		
Depreciation/amortization and impairment of non-current assets	*3,857*	*3,739*
Gain/loss on asset sales	*8*	*5*
Impact from settlement of pension liability	*-190*	*0*
Gain/loss on divestments	*8*	*-10*
Non-cash items relating to efficiency program	*-6*	*249*
Other	*256*	*198*
Total	*3,941*	*4,181*

CONSOLIDATED BALANCE SHEET

SEKm	June 30, 2020	December 31, 2019
Assets		
Goodwill	34,694	34,581
Other intangible assets	20,909	21,182
Property, plant and equipment	54,868	56,900
Participation in joint ventures and associates	864	865
Shares and participations	8	8
Surplus in funded pension plans	1,084	2,841
Non-current financial assets	668	694
Deferred tax assets	2,148	2,539
Other non-current assets	734	704
Total non-current assets	**115,977**	120,314
Inventories	17,623	15,764
Trade receivables	17,816	19,864
Current tax assets	656	745
Other current receivables	2,232	2,113
Current financial assets	1,034	525
Non-current assets held for sale	43	42
Cash and cash equivalents	5,500	2,928
Total current assets	**44,904**	41,981
Total assets	**160,881**	162,295
Equity		
Share capital	2,350	2,350
Reserves	4,569	6,284
Retained earnings	48,360	45,491
Attributable to owner of the Parent	**55,279**	54,125
Non-controlling interests	9,015	8,676
Total equity	**64,294**	62,801
Liabilities		
Non-current financial liabilities	41,346	43,079
Provisions for pensions	6,641	5,866
Deferred tax liabilities	6,163	6,545
Other non-current provisions	467	541
Other non-current liabilities	289	183
Total non-current liabilities	**54,906**	56,214
Current financial liabilities	8,403	8,983
Trade payables	15,593	15,802
Current tax liabilities	2,065	2,432
Current provisions	843	1,065
Other current liabilities	14,777	14,998
Total current liabilities	**41,681**	43,280
Total liabilities	**96,587**	99,494
Total equity and liabilities	**160,881**	162,295

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	June 30, 2020	December 31, 2019
Debt/equity ratio	0.75	0.81
Equity/assets ratio	34%	33%
Equity	64,294	62,801
Equity per share	92	89
Return on equity	19.2%	17.4%
Return on equity excluding items affecting comparability	19.5%	18.4%
Capital employed	112,398	113,741
- of which working capital	7,508	6,782
Return on capital employed*	15.4%	13.2%
Return on capital employed* excluding items affecting comparability	15.6%	13.8%
Net debt	48,104	50,940
Provisions for restructuring costs are included in the balance sheet as follows		
-Other non-current provisions	124	184
-Other current provisions	452	603

*) rolling 12 months

NET SALES (business area reporting)

SEKm	2006	1906	2020:2	2020:1	2019:4	2019:3	2019:2	2019:1
Personal Care	23,320	23,699	10,651	12,669	12,425	12,216	12,164	11,535
Consumer Tissue	25,517	24,415	12,437	13,080	13,269	12,220	12,167	12,248
Professional Hygiene	13,272	14,609	5,315	7,957	7,991	8,131	7,742	6,867
Other	10	1	4	6	1	-2	-5	6
Total net sales	**62,119**	62,724	**28,407**	33,712	33,686	32,565	32,068	30,656

ADJUSTED EBITA (business area reporting)

SEKm	2006	1906	2020:2	2020:1	2019:4	2019:3	2019:2	2019:1
Personal Care	3,477	3,251	1,438	2,039	1,756	1,739	1,711	1,540
Consumer Tissue	4,216	2,235	2,124	2,092	1,767	1,319	1,166	1,069
Professional Hygiene	1,874	1,767	481	1,393	1,408	1,288	1,026	741
Other	-452	-331	-261	-191	-189	-170	-171	-160
Total adjusted EBITA	**9,115**	6,922	**3,782**	5,333	4,742	4,176	3,732	3,190

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	2006	1906	2020:2	2020:1	2019:4	2019:3	2019:2	2019:1
Personal Care	3,091	2,893	1,241	1,850	1,567	1,554	1,529	1,364
Consumer Tissue	4,212	2,232	2,122	2,090	1,765	1,317	1,164	1,068
Professional Hygiene	1,855	1,748	472	1,383	1,398	1,278	1,016	732
Other	-452	-331	-261	-191	-190	-169	-170	-161
Total adjusted operating profit[1]	**8,706**	6,542	**3,574**	5,132	4,540	3,980	3,539	3,003
Financial items	-602	-686	-283	-319	-303	-320	-344	-342
Profit before tax[1]	**8,104**	5,856	**3,291**	4,813	4,237	3,660	3,195	2,661
Income taxes	-2,012	-1,079	-823	-1,189	-1,178	-730	-482	-597
Net profit for the period[2]	**6,092**	4,777	**2,468**	3,624	3,059	2,930	2,713	2,064
[1]Excluding items affecting comparability before tax amounting to:	44	-510	61	-17	-2	-201	-322	-188
[2]Excluding items affecting comparability after tax amounting to:	26	-347	40	-14	-13	-194	-212	-135

ADJUSTED EBITA MARGIN (business area reporting)

%	2006	1906	2020:2	2020:1	2019:4	2019:3	2019:2	2019:1
Personal Care	14.9	13.7	13.5	16.1	14.1	14.2	14.1	13.4
Consumer Tissue	16.5	9.2	17.1	16.0	13.3	10.8	9.6	8.7
Professional Hygiene	14.1	12.1	9.0	17.5	17.6	15.8	13.3	10.8

STATEMENT OF PROFIT OR LOSS

SEKm	2020:2	2020:1	2019:4	2019:3	2019:2
Net sales	**28,407**	33,712	33,686	32,565	32,068
Cost of goods sold	-19,260	-22,663	-22,997	-22,793	-22,779
Items affecting comparability - cost of goods sold	-100	-9	-11	23	-156
Gross profit	**9,047**	11,040	10,678	9,795	9,133
Sales, general and administration	-5,381	-5,749	-5,986	-5,594	-5,553
Items affecting comparability - sales, general and administration	161	-8	9	-224	-166
Share of profits of associates and joint ventures	16	33	39	-2	-4
EBITA	**3,843**	5,316	4,740	3,975	3,410
Amortization of acquisition-related intangible assets	-208	-201	-202	-196	-193
Operating profit	**3,635**	5,115	4,538	3,779	3,217
Financial items	-283	-319	-303	-320	-344
Profit before tax	**3,352**	4,796	4,235	3,459	2,873
Income taxes	-844	-1,186	-1,189	-723	-372
Net profit for the period	**2,508**	3,610	3,046	2,736	2,501

CONDENSED INCOME STATEMENT PARENT COMPANY

SEKm	2006	1906
Administrative expenses	-391	-327
Other operating income	17	10
Operating loss	**-374**	-317
Financial items	-541	3,726
Profit before tax	**-915**	3,409
Income taxes	182	133
Profit for the period	**-733**	3,542

CONDENSED BALANCE SHEET PARENT COMPANY

SEKm	June 30, 2020	December 31, 2019
Intangible assets	0	0
Property, plant and equipment	15	16
Financial non-current assets	176,240	176,352
Total non-current assets	176,255	176,368
Total current assets	412	1,794
Total assets	**176,667**	178,162
Restricted equity	2,350	2,350
Unrestricted equity	87,209	87,942
Total equity	89,559	90,292
Untaxed reserves	4	4
Provisions	874	877
Non-current liabilities	34,341	36,386
Current liabilities	51,889	50,603
Total equity, provisions and liabilities	**176,667**	178,162

NOTES

1 ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34 and recommendation RFR 1 of the Swedish Financial Reporting Board (RFR), and with regards to the Parent Company, RFR 2.

Effective January 1, 2020, Essity applies the following new or amended International Financial Reporting Standards (IFRS):

- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments

All other applied accounting principles and calculation methods correspond to those presented in Essity Aktiebolag's (publ) Annual and Sustainability Report for 2019.

IFRS 9 Financial Instruments and IFRS 7 Financial Instruments
Amendments to IFRS 9 and IFRS 7 were adopted on January 15, 2020 as a result of the reference rate reform. The amendments provide temporary exceptions from the application of specific requirements for hedge accounting for hedging relationships that are directly impacted by this reform. The exceptions apply to hedge accounting with the purpose being that that companies should not have to discontinue hedging relationships due to uncertainty concerning the reform. The amendments are to be applied as of January 1, 2020 with early application permitted. Essity has elected not to apply these amendments prospectively. At present, the reform primarily impacts Essity's hedging of fair value and EUR LIBOR interest rates. However, these hedges are expected to remain effective in the future. The introduction of the new regulations is therefore not expected to have any material impact on Essity's financial statements.

The assessment is that the above changes will not have any material effect on the Group's or the Parent Company's earnings or financial position.

2 RISKS AND UNCERTAINTIES

Essity's risk exposure and risk management are described on pages 34-39 of the 2019 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.

COVID-19 pandemic
Uncertainty and risks have arisen on account of the COVID-19 pandemic that may affect Essity's sales, earnings and financial position.

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]	
June 30, 2020						1	2
Derivatives	1,388	600	788	-	-	-	1,388
Non-current financial assets	94	-	-	94	-	94	-
Total assets	**1,482**	**600**	**788**	**94**	**0**	**94**	**1,388**
Derivatives	757	406	351	-	-	-	757
Financial liabilities							
Current financial liabilities	8,056	5,261	-	-	2,795	-	5,261
Non-current financial liabilities	41,282	11,045	-	-	30,237	-	11,045
Total liabilities	**50,095**	**16,712**	**351**	**-**	**33,032**	**-**	**17,063**
December 31, 2019							
Derivatives	971	366	605	-	-	-	971
Non-current financial assets	96	-	-	96	-	96	-
Total assets	1,067	366	605	96	0	96	971
Derivatives	991	629	362	-	-	-	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	13,796	362	-	38,060	-	14,158

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

The total fair value of the above financial liabilities, excluding lease liabilities, is SEK 46,699m (49,106). 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 February 27, 2020, it was announced that an agreement had been signed to acquire 75% of the Swedish medical solutions company ABIGO Medical AB. ABIGO Medical AB develops, manufactures and markets products including the Sorbact® technology, which is a clinically established innovation for advanced wound care. The transaction, which was subject to the customary regulatory approvals, was finalized on April 30, 2020.

A preliminary allocation of the purchase consideration is presented below, specifying intangible assets in the form of customer relationships, brands, technology and goodwill. The preliminary allocation may be adjusted. Goodwill is justified since ABIGO Medical AB was already an important partner and supplier to Essity prior to the acquisition, with Essity already using Sorbact® in its wound care products to prevent and treat infections. The company has about 170 employees and net sales in 2019 amounted to SEK 403m.

Since the acquisition, ABIGO Medical AB's recognized net sales amounted to SEK 41m, adjusted EBITDA to SEK 4m and adjusted EBITA to SEK 2m.

If the acquisition had been consolidated as of January 1, 2020, the anticipated sales would have amounted to SEK 150m, adjusted EBITDA to SEK 12m and adjusted EBITA to SEK 7m.

Purchase price allocation, ABIGO Medical AB	Preliminary
SEKm	
Intangible assets	235
Non-current assets	92
Current assets	184
Cash and cash equivalents	47
Net debt	-53
Provisions and other non-current liabilities	-69
Operating liabilities	-69
Net identifiable assets and liabilities	**367**
Goodwill	532
Consideration not transferred, recognized as liability	-257
Consideration paid	**642**
Consideration paid	-642
Cash and cash equivalents in acquired operations	47
Effect on the Group's cash and cash equivalents (Consolidated cash flow statement)	**-595**
Acquired net debt excluding cash and cash equivalents	-53
Acquisition of operations including net debt taken over (Consolidated operating cash flow statement)	**-648**

On April 1, 2020, Essity acquired 100% of the shares in Novioscan B.V., a Dutch company that develops a wearable ultrasound technology that monitors the bladder and enables continence control. The purchase price for the shares was EUR 4m and the takeover of net debt was EUR 3m. The company has ten employees. Net sales for 2019 and for the second quarter of 2020 were negligible in relation to those of the Essity Group. The purchase price allocation indicated goodwill of SEK 67m.

5 Use of non-IFRS performance measures

Guidelines for Alternative Performance Measures (APMs) for companies with securities listed on a regulated market in the EU have been issued by the European Securities and Markets Authority (ESMA). These guidelines are to be applied for APMs not supported under IFRS.

This interim report refers to a number of performance measures not defined in IFRS. These performance measures are used to help investors, management and other stakeholders analyze the company's operations. These non-IFRS measures may differ from similarly titled measures among other companies. Essity's 2019 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. Tables are presented that show how the performance measures have been calculated.

Capital employed

SEKm	2006	1912
Total assets	160,881	162,295
-Financial assets	-8,286	-6,988
-Non-current non-interest bearing liabilities	-6,919	-7,269
-Current non-interest bearing liabilities	-33,278	-34,297
Capital employed	112,398	113,741

SEKm	2020:2	2020:1	2019:4	2019:3	2019:2
Personal Care	44,150	45,684	44,268	45,630	45,272
Consumer Tissue	45,524	48,486	47,345	48,421	47,821
Professional Hygiene	23,051	24,747	22,996	24,332	24,245
Other	-327	-354	-868	-447	-1,176
Capital employed	112,398	118,563	113,741	117,936	116,162

Working capital

SEKm	2006	1912
Inventories	17,623	15,764
Trade receivables	17,816	19,864
Other current receivables	2,232	2,113
Trade payables	-15,593	-15,802
Other current liabilities	-14,777	-14,998
Other	207	-159
Working capital	7,508	6,782

Net debt

SEKm	2006	1912
Surplus in funded pension plans	1,084	2,841
Non-current financial assets	668	694
Current financial assets	1,034	525
Cash and cash equivalents	5,500	2,928
Financial assets	8,286	6,988
Non-current financial liabilities	41,346	43,079
Provisions for pensions	6,641	5,866
Current financial liabilities	8,403	8,983
Financial liabilities	56,390	57,928
Net debt	48,104	50,940

EBITDA

SEKm	2006	1906	2020:2	2019:2
Operating profit	8,750	6,032	3,635	3,217
-Amortization of acquisition-related intangible assets	409	380	208	193
-Depreciation/amortization	2,874	2,857	1,415	1,449
-Depreciation right-of-use asset	458	436	234	223
-Impairment	46	3	42	3
-Items affecting comparability - impairment net	70	63	70	52
EBITDA	12,607	9,771	5,604	5,137
-Items affecting comparability excluding depreciation/amortization and impairment	-114	447	-131	270
Adjusted EBITDA	12,493	10,218	5,473	5,407

EBITA

SEKm	2006	1906	2020:2	2019:2
Operating profit	8,750	6,032	3,635	3,217
-Amortization of acquisition-related intangible assets	409	380	208	193
-Operating profit before amortization of acquisition-related intangible assets/EBITA	9,159	6,412	3,843	3,410
EBITA margin (%)	14.7	10.2	13.5	10.6
-Items affecting comparability - cost of goods sold	109	255	100	156
-Items affecting comparability - sales, general and administration	-153	255	-161	166
Adjusted EBITA	9,115	6,922	3,782	3,732
Adjusted EBITA margin (%)	14.7	11.0	13.3	11.6

Operating cash flow

SEKm	2006	1906	2020:2	2019:2
Personal Care				
Operating cash surplus	4,454	4,261	1,932	2,227
Change in working capital	-524	-174	-36	-111
Investment in non-current assets, net	-641	-949	-355	-459
Restructuring costs, etc.	77	-152	119	-102
Operating cash flow before investments in operating assets through leases	3,366	2,986	1,660	1,555
Investment in operating assets through leases	-30	-137	-14	-32
Operating cash flow	3,336	2,849	1,646	1,523
Consumer Tissue				
Operating cash surplus	5,632	3,559	2,843	1,851
Change in working capital	181	-343	297	-26
Investment in non-current assets, net	-1,105	-1,083	-690	-434
Restructuring costs, etc.	-87	-75	36	-2
Operating cash flow before investments in operating assets through leases	4,621	2,058	2,486	1,389
Investment in operating assets through leases	-99	-31	-57	-15
Operating cash flow	4,522	2,027	2,429	1,374
Professional Hygiene				
Operating cash surplus	2,963	2,786	1,017	1,547
Change in working capital	-493	-526	93	158
Investment in non-current assets, net	-490	-599	-223	-389
Restructuring costs, etc.	-308	-295	-104	-173
Operating cash flow before investments in operating assets through leases	1,672	1,366	783	1,143
Investment in operating assets through leases	-41	-8	-14	4
Operating cash flow	1,631	1,358	769	1,147

Organic net sales

SEKm	2006	2020:2
Personal Care		
Organic net sales	-111	-1,143
Exchange rate effect[1]	-165	-358
Acquisition/Divestments	-103	-12
Recognized change	-379	-1,513
Consumer Tissue		
Organic net sales	1,059	523
Exchange rate effect[1]	43	-253
Acquisition/Divestments	0	0
Recognized change	1,102	270
Professional Hygiene		
Organic net sales	-1,529	-2,378
Exchange rate effect[1]	192	-49
Acquisition/Divestments	0	0
Recognized change	-1,337	-2,427
Essity		
Organic net sales	-572	-2,989
Exchange rate effect[1]	70	-659
Acquisition/Divestments	-103	-12
Recognized change	-605	-3,660

[1]Consists only of currency translation effects