

# Interim Report Third Quarter 2020

Essity Aktiebolag (publ)



# JANUARY 1 – SEPTEMBER 30, 2020

(compared with the corresponding period a year ago)

- Target raised for adjusted return on capital employed to above 17% by 2025. The previous target of above 15% for adjusted return on capital employed has been achieved during the last 12 months.
- Net sales declined 4.7% to SEK 90,796m (95,289)
- Organic net sales declined 2.4%
- 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 1.2%
- Operating profit before amortization of acquisition-related intangible assets (EBITA) increased 27% to SEK 13,177m (10,387)
- Adjusted EBITA increased 19% to SEK 13,234m (11,098)
- Adjusted EBITA margin increased 3.0 percentage points to 14.6% (11.6)
- Adjusted return on capital employed increased 2.9 percentage points to 15.7% (12.8)
- Profit for the period increased 22% to SEK 8,718m (7,166)
- Earnings per share increased 17% to SEK 10.80 (9.25)
- Adjusted earnings per share increased 9% to SEK 11.50 (10.59)
- Cash flow from current operations decreased 10% to SEK 8,560m (9,529)
- The Board proposes a dividend of SEK 6.25 (5.75) per share

## EARNINGS TREND

SEKm	2009	1909	%	2020:3	2019:3	%
Net sales	90,796	95,289	-5	28,677	32,565	-12
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) <sup>1</sup>	13,234	11,098	19	4,119	4,176	-1
Operating profit before amortization of acquisition-related intangible assets (EBITA)	13,177	10,387	27	4,018	3,975	1
Amortization of acquisition-related intangible assets	-610	-576		-201	-196	
Adjusted operating profit <sup>1</sup>	12,624	10,522	20	3,918	3,980	-2
Items affecting comparability	-57	-711		-101	-201	
Operating profit	12,567	9,811	28	3,817	3,779	1
Financial items	-786	-1,006		-184	-320	
Profit before tax	11,781	8,805	34	3,633	3,459	5
Adjusted profit before tax <sup>1</sup>	11,838	9,516	24	3,734	3,660	2
Income taxes	-3,063	-1,639		-1,033	-723	
Profit for the period	8,718	7,166	22	2,600	2,736	-5
Earnings per share, SEK	10.80	9.25		3.22	3.53	
Adjusted earnings per share, SEK <sup>2</sup>	11.50	10.59		3.55	3.99	

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

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

## SUMMARY

Essity is raising its target for adjusted return on capital employed to above 17% by 2025. The previous target of above 15% for adjusted return on capital employed has been achieved during the last 12 months. The raised target will be achieved through the continued execution of Essity's existing strategy, an accelerated digital transformation and further streamlining of production, logistics and distribution. Other financial targets remain unchanged.

Essity's innovation-driven category and channel strategy with leading brands combined with comprehensive efficiency improvements have contributed during the past three years to good organic sales growth and a gradual increase in profitability. Structural profitability in Consumer Tissue has been raised for example as a consequence of a higher share of own brands, a focus on growth in segments with high margins, successful innovations and more efficient production. In Baby Care, work is continuing to improve profitability and during the year we have, for example, exited underperforming positions in North Africa and Russia. In Incontinence Products, Medical Solutions and Feminine Care the focus remains on growth. In Professional Hygiene, an increased awareness of the importance of hygiene and health is eventually expected to result in rising demand.

Essity's digital transformation will accelerate in the years ahead through a new digital platform. This will further strengthen the Group's customer and consumer offerings, generate significant cost savings and reduce the need for working capital. This digital investment is expected to amount to approximately SEK 2.6bn. Of this amount, approximately SEK 1.4bn will comprise costs that will be charged to the 2020-2024 period, and SEK 1.2bn will comprise capital expenditures. A positive sales and earnings impact is expected gradually from 2022. In the short term, costs are expected to be offset by savings in other areas.

The new Manufacturing Roadmap program will optimize and streamline all of Essity's approximately 60 wholly-owned facilities for world-class cost efficiency, quality and service levels. The program also includes logistics and distribution. Moreover, the program contributes to Essity's sustainability target relating to the reduction of carbon emissions in line with the Science Based Targets initiative.

Essity's Board of Directors is proposing a dividend of SEK 6.25 per share and that the dividend proposal will be addressed at an Extraordinary General Meeting on October 28, 2020.

During the third quarter of 2020, the Group's organic net sales declined 5.1%, of which volume accounted for -5.1% and price/mix for 0.0%. The Group's online sales increased due to strong growth in Personal Care and Consumer Tissue. Organic net sales in mature markets declined 7.7%. In emerging markets, which accounted for 36% of net sales, organic net sales decreased 0.8%.

The COVID-19 pandemic has had both a positive and negative impact on Essity's business areas. Professional Hygiene's customer segments of hotel, restaurant, catering, commercial buildings as well as schools and universities were negatively affected by the lockdowns. Meanwhile, Professional Hygiene increased its sales of dispensers as a result of a greater focus on hygiene as many customers replaced air dryers to offer a more hygienic alternative. Moreover, Essity's wirelessly connected dispenser with sensor technology, Tork EasyCube®, shows that consumption per person of paper hand towels, soap and hand sanitizer has increased during the COVID-19 pandemic. As a result of rising demand, Professional Hygiene has increased delivery capacity for hand sanitizers. As lockdowns have forced consumers to spend more time in the home, demand for Consumer Tissue has been positively impacted while this has led to temporarily lower consumption for Personal Care. 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.

During the third quarter, Essity launched several innovations that has strengthened its customer and consumer offering and improve the product mix. In Feminine Care in Latin America, with the leading Nosotras and Saba brands, we launched washable, absorbent underwear. In Incontinence Products, TENA SmartCare was launched, a digital solution for continence care in the home and in healthcare, which makes life easier and better for users, relatives and caregivers. We also expanded our product offering to include face masks within retail and under our leading global brand Tork in Professional Hygiene.

The Group's adjusted gross margin for the third quarter of 2020 increased 2.4 percentage points, compared with the corresponding period a year ago, to 32.4%. The gross margin was positively impacted by a better mix, lower raw material and energy costs and costs savings. Continuous cost savings amounted to SEK 235m. Lower volumes for the Group and lower prices for the Consumer Tissue business area had a negative impact on the gross margin. Adjusted EBITA decreased 1% compared with the year-earlier period. The Group's adjusted EBITA margin rose 1.6 percentage points to 14.4%. Sales and marketing costs increased as a share of net sales. Adjusted return on capital employed rose 0.4 percentage points to 14.7%. Earnings per share amounted to SEK 3.22.



**ADJUSTED EARNINGS TREND**

SEKm	2009	1909	%	2020:3	2019:3	%
<b>Net sales</b>	<b>90,796</b>	95,289	-5	<b>28,677</b>	32,565	-12
Cost of goods sold <sup>1</sup>	-61,312	-67,879		-19,389	-22,793	
<b>Adjusted gross profit<sup>1</sup></b>	<b>29,484</b>	27,410	8	<b>9,288</b>	9,772	-5
Sales, general and administration <sup>1</sup>	-16,250	-16,312		-5,169	-5,596	
<b>Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)<sup>1</sup></b>	<b>13,234</b>	11,098	19	<b>4,119</b>	4,176	-1
Amortization of acquisition-related intangible assets	-610	-576		-201	-196	
<b>Adjusted operating profit<sup>1</sup></b>	<b>12,624</b>	10,522	20	<b>3,918</b>	3,980	-2
Financial items	-786	-1,006		-184	-320	
<b>Adjusted profit before tax<sup>1</sup></b>	<b>11,838</b>	9,516	24	<b>3,734</b>	3,660	2
Adjusted Income taxes <sup>1</sup>	-3,061	-1,809		-1,049	-730	
<b>Adjusted profit for the period<sup>1</sup></b>	<b>8,777</b>	7,707	14	<b>2,685</b>	2,930	-8
<sup>1</sup> Excluding items affecting comparability; for amounts see page 12.						
<b>Adjusted margins (%)</b>						
<b>Gross margin<sup>1</sup></b>	<b>32.5</b>	28.8		<b>32.4</b>	30.0	
<b>EBITA margin<sup>1</sup></b>	<b>14.6</b>	11.6		<b>14.4</b>	12.8	
<b>Operating margin<sup>1</sup></b>	<b>13.9</b>	11.0		<b>13.7</b>	12.2	
Financial net margin	-0.9	-1.1		-0.6	-1.0	
<b>Profit margin<sup>1</sup></b>	<b>13.0</b>	9.9		<b>13.1</b>	11.2	
Income taxes <sup>1</sup>	-3.4	-1.9		-3.7	-2.2	
<b>Net margin<sup>1</sup></b>	<b>9.6</b>	8.0		<b>9.4</b>	9.0	
<sup>1</sup> Excluding items affecting comparability; for amounts see page 12.						

**ADJUSTED EBITA BY BUSINESS AREA**

SEKm	2009	1909	%	2020:3	2019:3	%
Personal Care	5,282	4,990	6	1,805	1,739	4
Consumer Tissue	6,110	3,554	72	1,894	1,319	44
Professional Hygiene	2,508	3,055	-18	634	1,288	-51
Other	-666	-501		-214	-170	
<b>Total<sup>1</sup></b>	<b>13,234</b>	11,098	19	<b>4,119</b>	4,176	-1
<sup>1</sup> Excluding items affecting comparability; for amounts see page 12.						

**ADJUSTED OPERATING PROFIT BY BUSINESS AREA**

SEKm	2009	1909	%	2020:3	2019:3	%
Personal Care	4,705	4,447	6	1,614	1,554	4
Consumer Tissue	6,106	3,549	72	1,894	1,317	44
Professional Hygiene	2,479	3,026	-18	624	1,278	-51
Other	-666	-500		-214	-169	
<b>Total<sup>1</sup></b>	<b>12,624</b>	10,522	20	<b>3,918</b>	3,980	-2
<sup>1</sup> Excluding items affecting comparability; for amounts see page 12.						

**OPERATING CASH FLOW BY BUSINESS AREA**

SEKm	2009	1909	%	2020:3	2019:3	%
Personal Care	5,352	4,852	10	2,016	2,003	1
Consumer Tissue	5,037	3,013	67	515	986	-48
Professional Hygiene	2,414	3,315	-27	783	1,957	-60
Other	-907	-294		-245	62	
<b>Total</b>	<b>11,896</b>	10,886	9	<b>3,069</b>	5,008	-39

## GROUP

### NET SALES AND EARNINGS

#### January–September 2020 compared with the corresponding period a year ago

Net sales declined 4.7% compared with the corresponding period a year ago to SEK 90,796m (95,289). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 2.4%, of which volume accounted for -3.1% and price/mix for 0.7%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns. Organic net sales declined 4.3% in mature markets and increased 1.2% in emerging markets. Emerging markets accounted for 36% of net sales. Exchange rate effects reduced net sales by 2.2%. 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 3.7 percentage points to 32.5% (28.8) 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 4.5 percentage points. The lower raw material costs were primarily the result of lower pulp prices. Continuous cost savings amounted to SEK 622m. Lower volumes and higher distribution costs for the Group and lower prices for the Consumer Tissue business area had a negative impact on the gross margin. The Group's adjusted EBITA margin rose 3.0 percentage points to 14.6% (11.6). Sales and marketing costs increased as a share of net sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 19% (22% excluding currency translation effects, acquisitions and divestments) to SEK 13,234m (11,098).

Items affecting comparability amounted to SEK -57m (-711) 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 of 2020 due to a contract renegotiation. Restructuring costs and impairments had a negative impact.

Financial items decreased to SEK -786m (-1,006). Lower interest and lower average net debt had a positive impact.

Adjusted profit before tax increased 24% (27% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 11,838m (9,516).

The tax expense, excluding effects of items affecting comparability, was SEK 3,061m (1,809).

Adjusted profit for the period increased 14% (17% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 8,777m (7,707).

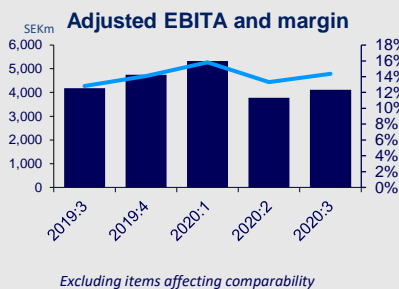
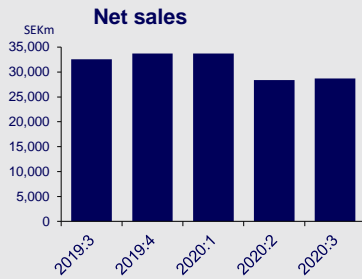
Profit for the period increased 22% (25% excluding currency translation effects, acquisitions and divestments) to SEK 8,718m (7,166). Earnings per share were SEK 10.80 (9.25). The adjusted earnings per share were SEK 11.50 (10.59).

The adjusted return on capital employed was 15.7% (12.8). The adjusted return on equity was 18.5% (20.0).

#### Third quarter of 2020 compared with the corresponding period a year ago

Net sales declined 11.9% compared with the corresponding period a year ago to SEK 28,677m (32,565). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 5.1%, of which volume accounted for -5.1% and price/mix for 0.0%. Sales were negatively affected by the COVID-19 pandemic and related lockdowns. Organic net sales declined 7.7% in mature markets and 0.8% in emerging markets. Emerging markets accounted for 36% of net sales. Exchange rate effects reduced net sales by 7.0%. Acquisitions increased net sales by 0.2% and were largely attributable to the acquisition of ABIGO Medical AB.

The Group's adjusted gross margin for the third quarter of 2020 increased 2.4 percentage points to 32.4% (30.0) 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 3.4 percentage points. The lower raw material costs were primarily the result of lower pulp prices. Continuous cost savings amounted to SEK 235m. Lower volumes for the Group and lower prices for the Consumer

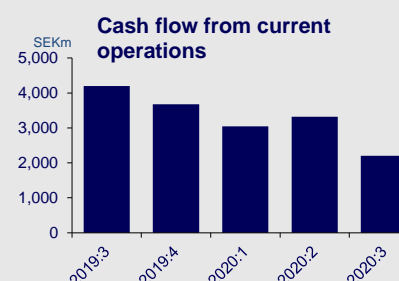


#### Change in net sales (%)

	2009 vs 1909	20:3 vs 19:3
<b>Total</b>	<b>-4.7</b>	<b>-11.9</b>
Volume	-3.1	-5.1
Price/mix	0.7	0.0
Currency	-2.2	-7.0
Acquisitions	0.1	0.2
Divestments	-0.2	0.0

#### Change in adjusted EBITA (%)

	2009 vs 1909	20:3 vs 19:3
<b>Total</b>	<b>19</b>	<b>-1</b>
Volume	-10	-14
Price/mix	5	-2
Raw materials	34	24
Energy	3	2
Currency	-2	-8
Other	-11	-3



Tissue business area had a negative impact on the gross margin. The Group's adjusted EBITA margin rose 1.6 percentage points to 14.4% (12.8). Sales and marketing costs increased as a share of net sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 1% (increased 7% excluding currency translation effects, acquisitions and divestments) to SEK 4,119m (4,176).

Adjusted profit before tax increased 2% (10% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 3,734m (3,660).

Profit for the period decreased 5% (increased 3% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 2,600m (2,736). Earnings per share were SEK 3.22 (3.53). The adjusted earnings per share were SEK 3.55 (3.99).

The adjusted return on capital employed was 14.7% (14.3). The adjusted return on equity was 16.5% (20.1).

## CASH FLOW AND FINANCING

### January–September 2020 compared with the corresponding period a year ago

The operating cash surplus amounted to SEK 18,469m (16,279). The cash flow effect of changes in working capital was SEK -1,713m (-133). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -3,975m (-3,761). Operating cash flow before investments in operating assets through leases amounted to SEK 12,111m (11,219). Investments in operating assets through leases amounted to SEK -215m (-333). Operating cash flow was SEK 11,896m (10,886).

Financial items decreased to SEK -786m (-1,006). Lower interest and lower average net debt had a positive impact.

Tax payments had an impact on cash flow of SEK -2,581m (-359). 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 -749m (210). Net cash flow totaled SEK 7,513m (5,402).

Net debt decreased by SEK 5,246m during the period and amounted to SEK 45,694m. Excluding pension liabilities, net debt amounted to SEK 40,580m. Net cash flow reduced net debt by SEK 7,513m. 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 2,733m. Exchange rate movements reduced net debt by SEK 797m. Investments in non-operating assets through leases increased net debt by SEK 331m. The debt/equity ratio was 0.69 (0.96). Excluding pension liabilities, the debt/equity ratio was 0.62 (0.86). The debt payment capacity was 45% (31). Net debt in relation to adjusted EBITDA amounted to 1.85 (2.76).

## EQUITY

### January–September 2020

The Group's equity increased by SEK 3,136m during the period, to SEK 65,937m. Net profit for the period increased equity by SEK 8,718m. Equity decreased net after tax by SEK 2,157m 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 160m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, reduced equity by SEK 3,231m. Other items decreased equity by SEK 354m.

## TAX

### January–September 2020

A tax expense of SEK 3,061m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 25.9% for the period. The tax expense including items affecting comparability was SEK 3,063m, corresponding to a tax rate of 26.0% for the period.

## **DIVIDEND**

The Board of Directors is proposing a dividend of SEK 6.25 (5.75) per share or SEK 4,390m (4,038). The record date for entitlement to receive dividends is proposed as October 30, 2020.

## **EVENTS DURING THE QUARTER**

### **Essity proposes share dividend of SEK 6.25**

On September 28, 2020, Essity announced that the company's Board of Directors has proposed a dividend of SEK 6.25 per share and that the dividend proposal be addressed at an Extraordinary General Meeting on October 28, 2020. During the spring, the Board of Directors withdrew its original dividend proposal. This was a consequence of the great uncertainty surrounding COVID-19. Despite Essity's highly robust income statement and balance sheet for 2019, there were grounds to exercise particular caution. Essity has remained strong with a continued healthy cash flow in 2020. The company has a strong balance sheet and financial flexibility. The company has not utilized the government's furlough scheme.

Essity will convene an Extraordinary General Meeting to be held on October 28, 2020. Under the current circumstances, the Meeting will use a format with advance voting, in accordance with the temporary legislation authorized by the Swedish Parliament, whereby votes are submitted to the company prior to the Meeting.

## **EVENTS AFTER THE QUARTER**

### **Essity raises target for adjusted return on capital employed to above 17% by 2025**

On October 22, 2020, Essity announced that the company is raising its target for adjusted return on capital employed to above 17% by 2025. The previous target of above 15% for adjusted return on capital employed has been achieved during the last 12 months. The raised target will be achieved through the continued execution of Essity's existing strategy, an accelerated digital transformation and further streamlining of production, logistics and distribution. Other financial targets remain unchanged.

Essity's innovation-driven category and channel strategy with leading brands combined with comprehensive efficiency improvements have contributed during the past three years to good organic sales growth and a gradual increase in profitability. Structural profitability in Consumer Tissue has been raised for example as a consequence of a higher share of own brands, a focus on growth in segments with high margins, successful innovations and more efficient production. In Baby Care, work is continuing to improve profitability and during the year we have, for example, exited underperforming positions in North Africa and Russia. In Incontinence Products, Medical Solutions and Feminine Care the focus remains on growth. In Professional Hygiene, an increased awareness of the importance of hygiene and health is eventually expected to result in rising demand.

Essity's digital transformation will accelerate in the years ahead through a new digital platform. This will further strengthen the Group's customer and consumer offerings, generate significant cost savings and reduce the need for working capital. This digital investment is expected to amount to approximately SEK 2.6bn. Of this amount, approximately SEK 1.4bn will comprise costs that will be charged to the 2020-2024 period, and SEK 1.2bn will comprise capital expenditures. A positive sales and earnings impact is expected gradually from 2022. In the short term, costs are expected to be offset by savings in other areas. The digital platform will enable automation in all parts of the value chain, simplification and economies of scale, and greater visibility and predictability based on high-quality data collection and advanced analytics.

The new Manufacturing Roadmap program will optimize and streamline all of Essity's approximately 60 wholly-owned facilities for world-class cost efficiency, quality and service levels. The program also includes logistics and distribution. Moreover, the program contributes to Essity's sustainability target relating to the reduction of carbon emissions in line with the Science Based Targets initiative.

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

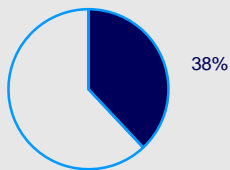
On October 21, 2020, Essity announced that the company divests its 49% stake in Sancell Tunisia to the other owner Sotupa. Sancell Tunisia offers a range of Essity's products and brands in Tunisia, Algeria, Morocco, and Libya. Essity will retain a presence on these markets through license and distribution agreements.

In 2019, Sancell Tunisia reported net sales of SEK 575m (TND 154m). The divestment is expected to give rise to a gain of approximately SEK 25m, which will be recognized as an item

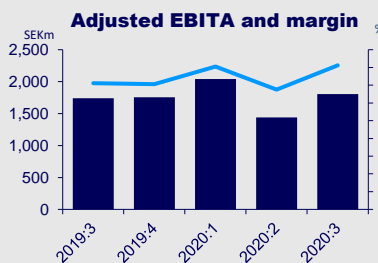
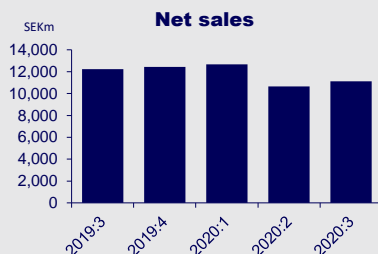
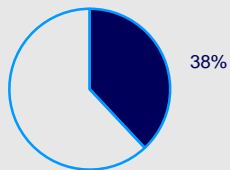
affecting comparability when the transaction is completed. The transaction is subject to approval by Tunisian authorities and is expected to be completed during Q4 2020.



Share of Group, net sales 2009



Share of Group, adjusted EBITA 2009



Change in net sales (%)

	2009 vs 1909	20:3 vs 19:3
<b>Total</b>	<b>-4.1</b>	<b>-9.0</b>
Volume	-2.3	-3.2
Price/mix	1.5	1.7
Currency	-3.2	-8.0
Acquisitions	0.3	0.5
Divestments	-0.4	0.0

Change in adjusted EBITA (%)

	2009 vs 1909	20:3 vs 19:3
<b>Total</b>	<b>6</b>	<b>4</b>
Volume	-8	-10
Price/mix	8	10
Raw materials	10	11
Energy	0	0
Currency	-3	-10
Other	-1	3

## PERSONAL CARE

SEKm	2009	1909	%	2020:3	2019:3	%
Net sales	34,435	35,915	-4	11,115	12,216	-9
Adjusted gross profit margin, %*	41.1	39.1		41.8	39.3	
Adjusted EBITA*	5,282	4,990	6	1,805	1,739	4
Adjusted EBITA margin, %*	15.3	13.9		16.2	14.2	
Adjusted operating profit*	4,705	4,447	6	1,614	1,554	4
Adjusted operating margin, %*	13.7	12.4		14.5	12.7	
Adjusted return on capital employed, %*	15.8	15.1		16.5	15.3	
Operating cash flow	5,352	4,852		2,016	2,003	

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

### January–September 2020 compared with the corresponding period a year ago

Net sales declined 4.1% to SEK 34,435m (35,915). Organic net sales declined 0.8%, of which volume accounted for -2.3% and price/mix for 1.5%. Organic net sales in mature markets declined 2.5%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 2.2%. Exchange rate effects reduced net sales by 3.2%. The divestment of a partly owned company in Turkey reduced net sales by 0.4%. Acquisitions increased net sales by 0.3% and related mainly to ABIGO Medical AB.

For Incontinence Products, with Essity's globally leading TENA brand, organic net sales increased 2.6%. Growth was related to Western Europe, North America and emerging markets. In Medical Solutions, organic net sales decreased 10.3%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns. For Baby Care, organic net sales declined 4.5%, related to Western Europe and emerging markets. For Feminine Care, organic net sales increased 5.0%, related to emerging markets.

The adjusted gross margin increased 2.0 percentage points to 41.1% (39.1). 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 1.4 percentage points to 15.3% (13.9). Sales and marketing costs increased as a share of net sales. Adjusted EBITA increased 6% (9% excluding currency translation effects, acquisitions and divestments) to SEK 5,282m (4,990).

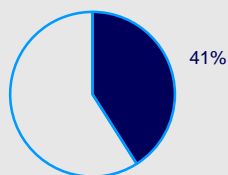
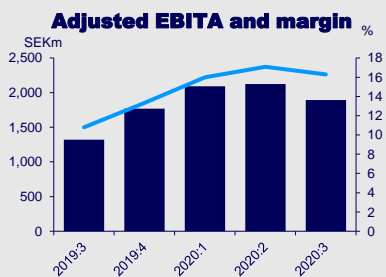
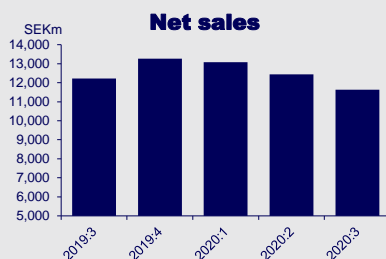
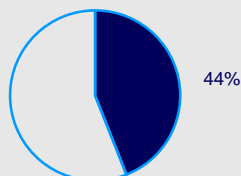
The operating cash surplus amounted to SEK 6,715m (6,500).

### Third quarter of 2020 compared with the corresponding period a year ago

Net sales declined 9.0% to SEK 11,115m (12,216). Organic net sales declined 1.5%, of which volume accounted for -3.2% and price/mix for 1.7%. Organic net sales in mature markets declined 2.3%. In emerging markets, which accounted for 34% of net sales, organic net sales declined 0.3%. Exchange rate effects reduced net sales by 8.0%. Acquisitions increased net sales by 0.5%.

Sales were negatively affected by the COVID-19 pandemic as demand was temporarily impacted by the lockdowns as consumption decreased slightly when consumers spent more time in the home. For Incontinence Products, with Essity's globally leading TENA brand, organic net sales declined 0.3%. The decline was related to Western Europe and North America, while net sales increased in emerging markets. In Medical Solutions, organic net sales decreased 4.5%, which was a substantial improvement compared with the second quarter of 2020. For Baby Care, organic net sales declined 2.8% related to Western Europe and emerging markets. For Feminine Care, organic net sales increased 0.1%, related to emerging markets.

The adjusted gross margin increased 2.5 percentage points to 41.8% (39.3). 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 1.5 percentage points. Lower volumes and higher distribution costs had a negative impact on the margin. The adjusted EBITA margin increased by 2.0 percentage points to 16.2% (14.2). Sales and marketing cost increased as a share of net sales. Adjusted EBITA rose 4% (14% excluding currency translation effects, acquisitions and divestments) to SEK 1,805m (1,739).

Share of Group, net sales  
2009Share of Group, adjusted EBITA  
2009

Change in net sales (%)

	2009 vs 1909	20:3 vs 19:3
<b>Total</b>	<b>1.4</b>	<b>-4.8</b>
Volume	4.4	4.6
Price/mix	-0.8	-2.6
Currency	-2.2	-6.8
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	2009 vs 1909	20:3 vs 19:3
<b>Total</b>	<b>72</b>	<b>44</b>
Volume	11	11
Price/mix	-9	-23
Raw materials	76	61
Energy	8	6
Currency	-2	-9
Other	-12	-2

## CONSUMER TISSUE

SEKm	2009	1909	%	2020:3	2019:3	%
Net sales	37,151	36,635	1	11,634	12,220	-5
Adjusted gross profit margin, %*	27.4	20.6		27.6	22.1	
Adjusted EBITA*	6,110	3,554	72	1,894	1,319	44
Adjusted EBITA margin, %*	16.4	9.7		16.3	10.8	
Adjusted operating profit*	6,106	3,549	72	1,894	1,317	44
Adjusted operating margin, %*	16.4	9.7		16.3	10.8	
Adjusted return on capital employed, %*	16.7	9.3		16.5	11.0	
Operating cash flow	5,037	3,013		515	986	

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

### January–September 2020 compared with the corresponding period a year ago

Net sales increased 1.4% to SEK 37,151m (36,635). Organic net sales increased 3.6%. Volumes increased by 4.4% and the price/mix decreased 0.8%. Organic net sales increased 2.5% in mature markets. In emerging markets, which accounted for 46% of net sales, organic net sales increased by 5.0%. Exchange rate effects decreased net sales by 2.2%.

The adjusted gross margin increased 6.8 percentage points to 27.4% (20.6). 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 8.0 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 6.7 percentage points to 16.4% (9.7). Sales and marketing costs as a share of net sales were in line with the year-earlier period.

Adjusted EBITA increased 72% (74% excluding currency translation effects, acquisitions and divestments) to SEK 6,110m (3,554).

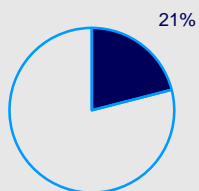
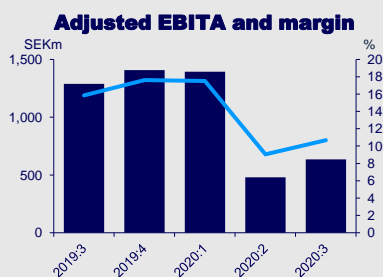
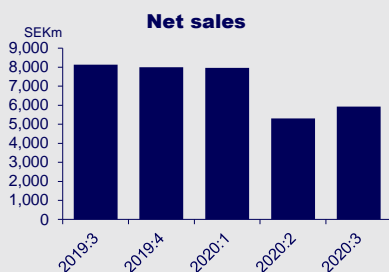
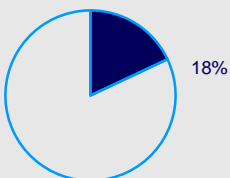
The operating cash surplus totaled SEK 8,189m (5,550).

### Third quarter of 2020 compared with the corresponding period a year ago

Net sales decreased 4.8% to SEK 11,634m (12,220). Organic net sales increased 2.0%. Volumes increased by 4.6% and the price/mix declined by 2.6% as a result of lower prices and a better mix. Organic net sales increased 0.9% in mature markets. In emerging markets, which accounted for 45% of net sales, organic net sales increased by 3.4%. Exchange rate effects reduced net sales by 6.8%.

The adjusted gross margin increased 5.5 percentage points to 27.6% (22.1). The gross margin was positively impacted by higher volumes, a better mix, cost savings and lower raw material and energy costs. Lower raw material and energy costs increased the gross margin by 7.0 percentage points. The lower raw material costs were mainly the result of lower pulp prices. Lower prices had a negative impact on the margin. The adjusted EBITA margin increased by 5.5 percentage points to 16.3% (10.8). Sales and marketing costs as a share of net sales were in line with the year-earlier period.

Adjusted EBITA increased 44% (53% excluding currency translation effects, acquisitions and divestments) to SEK 1,894m (1,319).

Share of Group, net sales  
2009Share of Group, adjusted EBITA  
2009

Change in net sales (%)

	2009 vs 1909	20:3 vs 19:3
<b>Total</b>	<b>-15.6</b>	<b>-27.1</b>
Volume	-16.7	-22.6
Price/mix	2.3	1.2
Currency	-1.2	-5.7
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	2009 vs 1909	20:3 vs 19:3
<b>Total</b>	<b>-18</b>	<b>-51</b>
Volume	-35	-42
Price/mix	12	4
Raw materials	19	0
Energy	1	-1
Currency	-1	-4
Other	-14	-8

## PROFESSIONAL HYGIENE

SEKm	2009	1909	%	2020:3	2019:3	%
Net sales	19,202	22,740	-16	5,930	8,131	-27
Adjusted gross profit margin, %*	26.9	25.6		24.1	27.9	
Adjusted EBITA*	2,508	3,055	-18	634	1,288	-51
Adjusted EBITA margin, %*	13.1	13.4		10.7	15.8	
Adjusted operating profit*	2,479	3,026	-18	624	1,278	-51
Adjusted operating margin, %*	12.9	13.3		10.5	15.7	
Adjusted return on capital employed, %*	16.7	17.8		11.2	21.2	
Operating cash flow	2,414	3,315		783	1,957	

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

### January–September 2020 compared with the corresponding period a year ago

Net sales declined 15.6% to SEK 19,202m (22,740). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 14.4%. Sales were negatively impacted by the COVID-19 pandemic and related lockdowns. Volumes declined by 16.7%. The price/mix increased 2.3% as a result of higher prices and a better mix. Organic net sales declined 14.1% in mature markets. In emerging markets, which accounted for 19% of net sales, organic net sales declined by 15.7%. Exchange rate effects reduced net sales by 1.2%.

The adjusted gross margin increased 1.3 percentage points to 26.9% (25.6). 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 3.0 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 decreased by 0.3 percentage points to 13.1% (13.4). Sales and marketing costs increased as a share of net sales.

Adjusted EBITA decreased 18% (17% excluding currency translation effects, acquisitions and divestments) to SEK 2,508m (3,055).

The operating cash surplus was SEK 4,123m (4,623).

### Third quarter of 2020 compared with the corresponding period a year ago

Net sales declined 27.1% to SEK 5,930m (8,131). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 21.4%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns and inventory adjustments following stockpiling among distributors in March 2020. The negative impact of lockdowns was primarily on demand in the customer segments of hotel, restaurant, catering, commercial buildings as well as schools and universities. Meanwhile, sales of dispensers increased as a result of a greater focus on hygiene as many customers replaced air dryers to offer a more hygienic alternative. Moreover, Essity's wirelessly connected dispenser with sensor technology showed that consumption per person of paper hand towels, soap and hand sanitizer has increased during the COVID-19 pandemic. Volumes declined by 22.6%. The price/mix increased 1.2% as a result of a better mix. Organic net sales declined 22.7% in mature markets. In emerging markets, which accounted for 20% of net sales, organic net sales declined by 17.2%. Exchange rate effects reduced net sales by 5.7%.

The adjusted gross margin declined 3.8 percentage points to 24.1% (27.9). The gross margin was positively impacted by a better mix and cost savings. Lower volumes had a negative impact on the margin. Raw material costs remained stable. The adjusted EBITA margin declined by 5.1 percentage points to 10.7% (15.8). Sales and marketing costs increased as a share of net sales.

Adjusted EBITA declined 51% (47% excluding currency translation effects, acquisitions and divestments) to SEK 634m (1,288).

## DISTRIBUTION OF SHARES

September 30, 2020	Class A	Class B	Total
Registered number of shares	61,735,252	640,607,237	702,342,489

At the end of the period, the proportion of Class A shares was 8.8%. During the third quarter, 1,711 Class A shares were converted into Class B shares at the request of shareholders. The total number of votes in the company amounts to 1,257,959,757.

## FUTURE REPORTS

The Year-end Report for 2020 will be published on January 27, 2021. Essity's Annual Report for 2020 will be published during the week starting March 1, 2021. In 2021, interim reports will be published on April 23, July 16 and October 22.

## EXTRAORDINARY GENERAL MEETING

An Extraordinary General Meeting of Essity will be held on October 28, 2020.

## ANNUAL GENERAL MEETING

Essity's Annual General Meeting will be held in Stockholm on March 25, 2021.

## INVITATION TO PRESENTATION OF THE THIRD QUARTER REPORT FOR 2020

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

### Presentation

Date: Thursday, October 22, 2020

Time: 9:00 a.m.

Link to web presentation: <https://essity.videosync.fi/2020-10-22-q3>

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. 5359628.

Stockholm, October 22, 2020

Essity Aktiebolag (publ)

Magnus Groth  
President and CEO

### For further information, please contact:

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

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

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

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

### NB:

This information is such that Essity Aktiebolag (publ) is obligated to make public pursuant to the EU Market Abuse Regulation. This report has been prepared in both Swedish and English versions. In case of variations in the content between the two versions, the Swedish version shall govern. The information was submitted for publication, through the agency of the contact person set out below, at 7:00 a.m. CET on October 22, 2020. This interim report has not 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	2020:3	2019:3	2020:2	2009	1909
<b>Net sales</b>	<b>28,677</b>	32,565	28,407	<b>90,796</b>	95,289
Cost of goods sold <sup>1,2</sup>	-19,389	-22,793	-19,260	-61,312	-67,879
Items affecting comparability - cost of goods sold <sup>2</sup>	-94	23	-100	-203	-232
<b>Gross profit</b>	<b>9,194</b>	9,795	9,047	<b>29,281</b>	27,178
Sales, general and administration <sup>1,2</sup>	-5,181	-5,594	-5,381	-16,311	-16,333
Items affecting comparability - sales, general and administration <sup>2</sup>	-7	-224	161	146	-479
Share of profits of associates and joint ventures	12	-2	16	61	21
<b>Operating profit before amortization of acquisition-related intangible assets (EBITA)</b>	<b>4,018</b>	3,975	3,843	<b>13,177</b>	10,387
Amortization of acquisition-related intangible assets	-201	-196	-208	-610	-576
<b>Operating profit</b>	<b>3,817</b>	3,779	3,635	<b>12,567</b>	9,811
Financial items	-184	-320	-283	-786	-1,006
<b>Profit before tax</b>	<b>3,633</b>	3,459	3,352	<b>11,781</b>	8,805
Income taxes	-1,033	-723	-844	-3,063	-1,639
<b>Profit for the period</b>	<b>2,600</b>	2,736	2,508	<b>8,718</b>	7,166
<b>Earnings attributable to:</b>					
Owners of the parent	2,265	2,477	2,088	7,588	6,500
Non-controlling interests	335	259	420	1,130	666
<b>Earnings per share, SEK - owners of the parent</b>					
- before and after dilution effects	3.22	3.53	2.97	10.80	9.25
Average no. of shares before and after dilution, millions	702.3	702.3	702.3	702.3	702.3
<sup>1</sup> Of which, depreciation/amortization	-1,773	-1,879	-1,857	-5,514	-5,552
<sup>2</sup> Of which, impairment	-141	72	-112	-257	6
<b>Gross margin</b>	<b>32.1</b>	30.1	31.8	<b>32.2</b>	28.5
<b>EBITA margin</b>	<b>14.0</b>	12.2	13.5	<b>14.5</b>	10.9
Operating margin	13.3	11.6	12.8	13.8	10.3
Financial net margin	-0.6	-1.0	-1.0	-0.9	-1.1
<b>Profit margin</b>	<b>12.7</b>	10.6	11.8	<b>12.9</b>	9.2
Income taxes	-3.6	-2.2	-3.0	-3.4	-1.7
<b>Net margin</b>	<b>9.1</b>	8.4	8.8	<b>9.5</b>	7.5
<b>Excluding items affecting comparability:</b>					
<b>Gross margin</b>	<b>32.4</b>	30.0	32.2	<b>32.5</b>	28.8
<b>EBITA margin</b>	<b>14.4</b>	12.8	13.3	<b>14.6</b>	11.6
Operating margin	13.7	12.2	12.6	13.9	11.0
Financial net margin	-0.6	-1.0	-1.0	-0.9	-1.1
<b>Profit margin</b>	<b>13.1</b>	11.2	11.6	<b>13.0</b>	9.9
Income taxes	-3.7	-2.2	-2.9	-3.4	-1.9
<b>Net margin</b>	<b>9.4</b>	9.0	8.7	<b>9.6</b>	8.0

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

SEKm	2020:3	2019:3	2020:2	2009	1909
<b>Profit for the period</b>	<b>2,600</b>	2,736	2,508	<b>8,718</b>	7,166
<b>Other comprehensive income for the period</b>					
<b>Items that may not be reclassified to the income statement</b>					
Actuarial gains/losses on defined benefit pension plans	388	-1,169	-1,226	-2,733	-2,004
Fair value through other comprehensive income	2	1	5	0	6
Income tax attributable to components in other comprehensive income	-85	222	302	576	444
	305	-946	-919	-2,157	-1,554
<b>Items that have been or may be reclassified subsequently to the income statement</b>					
Cash flow hedges					
Result from remeasurement of derivatives recognized in equity	74	-10	55	-218	-400
Transferred to profit or loss for the period	130	68	176	427	54
Translation differences in foreign operations	-1,518	1,967	-4,578	-3,584	4,454
Gains/losses from hedges of net investments in foreign operations	367	-146	702	443	-357
Other comprehensive income from associated companies	-2	-5	-22	-12	-15
Income tax attributable to components in other comprehensive income	-127	16	-200	-132	154
	-1,076	1,890	-3,867	-3,076	3,890
<b>Other comprehensive income for the period, net of tax</b>	<b>-771</b>	944	-4,786	<b>-5,233</b>	2,336
<b>Total comprehensive income for the period</b>	<b>1,829</b>	3,680	-2,278	<b>3,485</b>	9,502
<b>Total comprehensive income attributable to:</b>					
Owners of the Parent company	1,613	3,213	-2,107	2,759	8,319
Non-controlling interests	216	467	-171	726	1,183

**CONSOLIDATED STATEMENT OF CHANGE IN EQUITY**

SEKm	2009	1909
<b>Attributable to owners of the Parent company</b>		
Value, January 1	54,125	47,141
Total comprehensive income for the period	2,759	8,319
Dividend	0	-4,038
Acquisition of holdings non-controlling interests	-1	0
Private placement to non-controlling interests	32	2
Transferred to cost of hedged investments	-7	8
Revaluation effect on acquisition of holdings non-controlling interests	-1	0
<b>Value, September 30</b>	<b>56,907</b>	51,432
<b>Non-controlling interests</b>		
Value, January 1	8,676	7,758
Total comprehensive income for the period	726	1,183
Dividend	-436	-343
Private placement to non-controlling interests	30	2
Divestment of non-controlling interests	35	0
Acquisition of non-controlling interests	-1	0
<b>Value, September 30</b>	<b>9,030</b>	8,600
<b>Total equity, value September 30</b>	<b>65,937</b>	60,032

**CONSOLIDATED OPERATING CASH FLOW STATEMENT**

<b>SEKm</b>	<b>2009</b>	<b>1909</b>
Operating cash surplus	18,469	16,279
Change in working capital	-1,713	-133
Investment in non-current assets, net	-3,975	-3,761
Restructuring costs, etc.	-670	-1,166
<b>Operating cash flow before Investments in operating assets through leases</b>	<b>12,111</b>	<b>11,219</b>
Investments in operating assets through leases	-215	-333
<b>Operating cash flow</b>	<b>11,896</b>	<b>10,886</b>
Financial items	-786	-1,006
Income taxes paid	-2,581	-359
Other	31	8
<b>Cash flow from current operations</b>	<b>8,560</b>	<b>9,529</b>
Acquisitions of Group companies and other operations	-748	-10
Divestments of Group companies and other operations	-1	220
<b>Cash flow before transactions with shareholders</b>	<b>7,811</b>	<b>9,739</b>
Private placement to non-controlling interest	60	4
Dividend to non-controlling interests	-358	-303
Dividend	0	-4,038
<b>Net cash flow</b>	<b>7,513</b>	<b>5,402</b>
<b>Net debt at the start of the period</b>	<b>-50,940</b>	<b>-54,404</b>
Changed opening balance for net debt due to IFRS 16 Leases	0	-3,786
Net cash flow	7,513	5,402
Remeasurements to equity	-2,733	-1,998
Investments in non-operating assets through leases	-331	-380
Translation differences	797	-2,738
<b>Net debt at the end of the period</b>	<b>-45,694</b>	<b>-57,904</b>
<b>Debt/equity ratio</b>	<b>0.69</b>	<b>0.96</b>
<b>Debt payment capacity, %</b>	<b>45</b>	<b>31</b>
<b>Net debt / EBITDA</b>	<b>1.84</b>	<b>2.87</b>
<b>Net debt / Adjusted EBITDA</b>	<b>1.85</b>	<b>2.76</b>

**CONSOLIDATED CASH FLOW STATEMENT**

<b>SEKm</b>	<b>2009</b>	<b>1909</b>
<b>Operating activities</b>		
Operating profit	12,567	9,811
Adjustment for non-cash items <sup>1)</sup>	5,914	6,218
Interest paid	-725	-822
Interest received	80	82
Other financial items	-190	-338
Change in liabilities relating to restructuring programs, etc.	-840	-908
Paid tax	-2,581	-359
<b>Cash flow from operating activities before changes in working capital</b>	<b>14,225</b>	<b>13,684</b>
<b>Cash flow from changes in working capital</b>		
Change in inventories	-2,734	-611
Change in operating receivables	-169	-936
Change in operating liabilities	1,190	1,414
<b>Cash flow from operating activities</b>	<b>12,512</b>	<b>13,551</b>
<b>Investing activities</b>		
Acquisitions of Group companies and other operations	-668	-10
Divestments of Group companies and other operations	0	6
Investments in intangible assets and property, plant and equipment	-4,028	-3,910
Sale of property, plant and equipment	65	185
Loans granted to external parties	0	-65
Repayment of loans from external parties	22	0
Paid interest capitalized in intangible asset and property, plant and equipment	-11	-36
<b>Cash flow from investing activities</b>	<b>-4,620</b>	<b>-3,830</b>
<b>Financing activities</b>		
Private placement to non-controlling interests	60	4
Dividend	0	-4,038
Proceeds from borrowings	5,895	1,151
Repayment of borrowings	-9,109	-5,490
Dividend to non-controlling interests	-358	-303
<b>Cash flow from financing activities</b>	<b>-3,512</b>	<b>-8,676</b>
<b>Cash flow for the period</b>	<b>4,380</b>	<b>1,045</b>
Cash and cash equivalents at the beginning of the period	2,928	3,008
Translation differences in cash and cash equivalents	-169	184
<b>Cash and cash equivalents at the end of the period</b>	<b>7,139</b>	<b>4,237</b>
Cash flow from operating activities per share, SEK	17.81	19.29
<b>Reconciliation with consolidated operating cash flow statement</b>		
<b>Cash flow for the period</b>	<b>4,380</b>	<b>1,045</b>
Refund to external parties	-22	0
Repayment of borrowings	9,109	5,490
Proceeds from borrowings	-5,895	-1,151
Loans granted to external parties	0	65
Impact from settlement of pension liability	188	0
Investment through financial lease	-215	-333
Net debt in acquired and divested operations	-81	214
Accrued interest	49	72
<b>Net cash flow according to consolidated operating cash flow statement</b>	<b>7,513</b>	<b>5,402</b>
<sup>1)</sup> Adjustment for non-cash items		
Depreciation/amortization and impairment of non-current assets	5,771	5,546
Gain/loss on asset sales	-29	-15
Impact from settlement of pension liability	-188	0
Gain/loss on divestments	8	131
Non-cash items relating to efficiency program	-13	233
Other	365	323
<b>Total</b>	<b>5,914</b>	<b>6,218</b>



**CONSOLIDATED BALANCE SHEET**

SEKm	September 30, 2020	December 31, 2019
<b>Assets</b>		
Goodwill	34,281	34,581
Other intangible assets	19,660	21,182
Property, plant and equipment	55,314	56,900
Participation in joint ventures and associates	876	865
Shares and participations	7	8
Surplus in funded pension plans	1,418	2,841
Non-current financial assets	715	694
Deferred tax assets	1,893	2,539
Other non-current assets	768	704
<b>Total non-current assets</b>	<b>114,932</b>	<b>120,314</b>
Inventories	17,822	15,764
Trade receivables	19,031	19,864
Current tax assets	567	745
Other current receivables	2,233	2,113
Current financial assets	771	525
Non-current assets held for sale	42	42
Cash and cash equivalents	7,139	2,928
<b>Total current assets</b>	<b>47,605</b>	<b>41,981</b>
<b>Total assets</b>	<b>162,537</b>	<b>162,295</b>
<b>Equity</b>		
Share capital	2,350	2,350
Reserves	3,616	6,284
Retained earnings	50,941	45,491
<b>Attributable to owner of the Parent</b>	<b>56,907</b>	<b>54,125</b>
Non-controlling interests	9,030	8,676
<b>Total equity</b>	<b>65,937</b>	<b>62,801</b>
<b>Liabilities</b>		
Non-current financial liabilities	40,627	43,079
Provisions for pensions	6,532	5,866
Deferred tax liabilities	6,047	6,545
Other non-current provisions	447	541
Other non-current liabilities	147	183
<b>Total non-current liabilities</b>	<b>53,800</b>	<b>56,214</b>
Current financial liabilities	8,578	8,983
Trade payables	15,089	15,802
Current tax liabilities	2,373	2,432
Current provisions	788	1,065
Other current liabilities	15,972	14,998
<b>Total current liabilities</b>	<b>42,800</b>	<b>43,280</b>
<b>Total liabilities</b>	<b>96,600</b>	<b>99,494</b>
<b>Total equity and liabilities</b>	<b>162,537</b>	<b>162,295</b>

**CONSOLIDATED BALANCE SHEET (cont.)**

SEKm	September 30, 2020	December 31, 2019
Debt/equity ratio	0.69	0.81
Equity/assets ratio	35%	33%
Equity	65,937	62,801
Equity per share	94	89
Return on equity	18.4%	17.4%
Return on equity excluding items affecting comparability	18.5%	18.4%
Capital employed	111,631	113,741
- of which working capital	8,212	6,782
Return on capital employed*	15.6%	13.2%
Return on capital employed* excluding items affecting comparability	15.7%	13.8%
Net debt	45,694	50,940
Provisions for restructuring costs are included in the balance sheet as follows		
-Other non-current provisions	115	184
-Other current provisions	337	603

\*) rolling 12 months

**NET SALES (business area reporting)**

SEKm	2009	1909	2020:3	2020:2	2020:1	2019:4	2019:3	2019:2
Personal Care	34,435	35,915	11,115	10,651	12,669	12,425	12,216	12,164
Consumer Tissue	37,151	36,635	11,634	12,437	13,080	13,269	12,220	12,167
Professional Hygiene	19,202	22,740	5,930	5,315	7,957	7,991	8,131	7,742
Other	8	-1	-2	4	6	1	-2	-5
<b>Total net sales</b>	<b>90,796</b>	<b>95,289</b>	<b>28,677</b>	<b>28,407</b>	<b>33,712</b>	<b>33,686</b>	<b>32,565</b>	<b>32,068</b>

**ADJUSTED EBITA (business area reporting)**

SEKm	2009	1909	2020:3	2020:2	2020:1	2019:4	2019:3	2019:2
Personal Care	5,282	4,990	1,805	1,438	2,039	1,756	1,739	1,711
Consumer Tissue	6,110	3,554	1,894	2,124	2,092	1,767	1,319	1,166
Professional Hygiene	2,508	3,055	634	481	1,393	1,408	1,288	1,026
Other	-666	-501	-214	-261	-191	-189	-170	-171
<b>Total adjusted EBITA</b>	<b>13,234</b>	<b>11,098</b>	<b>4,119</b>	<b>3,782</b>	<b>5,333</b>	<b>4,742</b>	<b>4,176</b>	<b>3,732</b>

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

SEKm	2009	1909	2020:3	2020:2	2020:1	2019:4	2019:3	2019:2
Personal Care	4,705	4,447	1,614	1,241	1,850	1,567	1,554	1,529
Consumer Tissue	6,106	3,549	1,894	2,122	2,090	1,765	1,317	1,164
Professional Hygiene	2,479	3,026	624	472	1,383	1,398	1,278	1,016
Other	-666	-500	-214	-261	-191	-190	-169	-170
<b>Total adjusted operating profit<sup>1</sup></b>	<b>12,624</b>	<b>10,522</b>	<b>3,918</b>	<b>3,574</b>	<b>5,132</b>	<b>4,540</b>	<b>3,980</b>	<b>3,539</b>
Financial items	-786	-1,006	-184	-283	-319	-303	-320	-344
<b>Profit before tax<sup>1</sup></b>	<b>11,838</b>	<b>9,516</b>	<b>3,734</b>	<b>3,291</b>	<b>4,813</b>	<b>4,237</b>	<b>3,660</b>	<b>3,195</b>
Income taxes	-3,061	-1,809	-1,049	-823	-1,189	-1,178	-730	-482
<b>Net profit for the period<sup>2</sup></b>	<b>8,777</b>	<b>7,707</b>	<b>2,685</b>	<b>2,468</b>	<b>3,624</b>	<b>3,059</b>	<b>2,930</b>	<b>2,713</b>
<sup>1</sup> Excluding items affecting comparability before tax amounting to:	-57	-711	-101	61	-17	-2	-201	-322
<sup>2</sup> Excluding items affecting comparability after tax amounting to:	-59	-541	-85	40	-14	-13	-194	-212

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

%	2009	1909	2020:3	2020:2	2020:1	2019:4	2019:3	2019:2
Personal Care	15.3	13.9	16.2	13.5	16.1	14.1	14.2	14.1
Consumer Tissue	16.4	9.7	16.3	17.1	16.0	13.3	10.8	9.6
Professional Hygiene	13.1	13.4	10.7	9.0	17.5	17.6	15.8	13.3

**STATEMENT OF PROFIT OR LOSS**

SEKm	2020:3	2020:2	2020:1	2019:4	2019:3
<b>Net sales</b>	<b>28,677</b>	<b>28,407</b>	<b>33,712</b>	<b>33,686</b>	<b>32,565</b>
Cost of goods sold	-19,389	-19,260	-22,663	-22,997	-22,793
Items affecting comparability - cost of goods sold	-94	-100	-9	-11	23
<b>Gross profit</b>	<b>9,194</b>	<b>9,047</b>	<b>11,040</b>	<b>10,678</b>	<b>9,795</b>
Sales, general and administration	-5,181	-5,381	-5,749	-5,986	-5,594
Items affecting comparability - sales, general and administration	-7	161	-8	9	-224
Share of profits of associates and joint ventures	12	16	33	39	-2
<b>EBITA</b>	<b>4,018</b>	<b>3,843</b>	<b>5,316</b>	<b>4,740</b>	<b>3,975</b>
Amortization of acquisition-related intangible assets	-201	-208	-201	-202	-196
<b>Operating profit</b>	<b>3,817</b>	<b>3,635</b>	<b>5,115</b>	<b>4,538</b>	<b>3,779</b>
Financial items	-184	-283	-319	-303	-320
<b>Profit before tax</b>	<b>3,633</b>	<b>3,352</b>	<b>4,796</b>	<b>4,235</b>	<b>3,459</b>
Income taxes	-1,033	-844	-1,186	-1,189	-723
<b>Net profit for the period</b>	<b>2,600</b>	<b>2,508</b>	<b>3,610</b>	<b>3,046</b>	<b>2,736</b>

**CONDENSED INCOME STATEMENT PARENT COMPANY**

SEKm	2009	1909
Administrative expenses	-557	-504
Other operating income	28	18
<b>Operating loss</b>	<b>-529</b>	<b>-486</b>
Financial items	-824	3,536
<b>Profit before tax</b>	<b>-1,353</b>	<b>3,050</b>
Income taxes	274	211
<b>Profit for the period</b>	<b>-1,079</b>	<b>3,261</b>

**CONDENSED BALANCE SHEET PARENT COMPANY**

SEKm	September 30, 2020	December 31, 2019
Intangible assets	0	0
Property, plant and equipment	14	16
Financial non-current assets	176,256	176,352
Total non-current assets	176,270	176,368
Total current assets	603	1,794
<b>Total assets</b>	<b>176,873</b>	<b>178,162</b>
Restricted equity	2,350	2,350
Non-restricted equity	86,863	87,942
Total equity	89,213	90,292
Untaxed reserves	4	4
Provisions	875	877
Non-current liabilities	33,310	36,386
Current liabilities	53,471	50,603
<b>Total equity, provisions and liabilities</b>	<b>176,873</b>	<b>178,162</b>



# NOTES

## 1 ACCOUNTING PRINCIPLES

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

Effective January 1, 2020, Essity applies the following 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 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 <sup>1</sup>	
						1	2
<b>September 30, 2020</b>							
Derivatives	1,356	567	789	-	-	-	1,356
Non-current financial assets	94	-	-	97	-	97	-
<b>Total assets</b>	<b>1,450</b>	<b>567</b>	<b>789</b>	<b>97</b>	<b>0</b>	<b>97</b>	<b>1,356</b>
Derivatives	582	321	261	-	-	-	582
Financial liabilities							
Current financial liabilities	8,105	5,294	-	-	2,811	-	5,294
Non-current financial liabilities	40,586	11,150	-	-	29,436	-	11,150
<b>Total liabilities</b>	<b>49,273</b>	<b>16,765</b>	<b>261</b>	<b>-</b>	<b>32,247</b>	<b>-</b>	<b>17,026</b>
<b>December 31, 2019</b>							
Derivatives	971	366	605	-	-	-	971
Non-current financial assets	96	-	-	96	-	96	-
<b>Total assets</b>	<b>1,067</b>	<b>366</b>	<b>605</b>	<b>96</b>	<b>0</b>	<b>96</b>	<b>971</b>
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
<b>Total liabilities</b>	<b>52,218</b>	<b>13,796</b>	<b>362</b>	<b>-</b>	<b>38,060</b>	<b>-</b>	<b>14,158</b>

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

The total fair value of the above financial liabilities, excluding lease liabilities, is SEK 46,211m (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 102m, adjusted EBITDA to SEK 8m 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 211m, adjusted EBITDA to SEK 16m and adjusted EBITA to SEK 7m.

<b>Purchase price allocation, ABIGO Medical AB</b>		Preliminary
<b>SEKm</b>		
Intangible assets		235
Non-current assets		92
Current assets		183
Cash and cash equivalents		47
Net debt		-53
Provisions and other non-current liabilities		-68
Operating liabilities		-69
<b>Net identifiable assets and liabilities</b>		<b>367</b>
Goodwill		532
Consideration not transferred, recognized as liability		-225
<b>Consideration paid</b>		<b>674</b>
Consideration paid		-674
Cash and cash equivalents in acquired operations		47
<b>Effect on the Group's cash and cash equivalents (Consolidated cash flow statement)</b>		<b>-627</b>
Acquired net debt excluding cash and cash equivalents		-53
<b>Acquisition of operations including net debt taken over (Consolidated operating cash flow statement)</b>		<b>-680</b>

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 below that show how the performance measures have been calculated.

### Capital employed

SEKm	2009	1912
Total assets	162,537	162,295
-Financial assets	-10,043	-6,988
-Non-current non-interest bearing liabilities	-6,641	-7,269
-Current non-interest bearing liabilities	-34,222	-34,297
Capital employed	111,631	113,741

SEKm	2020:3	2020:2	2020:1	2019:4	2019:3
Personal Care	43,268	44,150	45,684	44,268	45,630
Consumer Tissue	46,464	45,524	48,486	47,345	48,421
Professional Hygiene	22,221	23,051	24,747	22,996	24,332
Other	-322	-327	-354	-868	-447
Capital employed	111,631	112,398	118,563	113,741	117,936

## Working capital

SEKm	2009	1912
Inventories	17,822	15,764
Trade receivables	19,031	19,864
Other current receivables	2,233	2,113
Trade payables	-15,089	-15,802
Other current liabilities	-15,972	-14,998
Other	187	-159
Working capital	8,212	6,782

## Net debt

SEKm	2009	1912
Surplus in funded pension plans	1,418	2,841
Non-current financial assets	715	694
Current financial assets	771	525
Cash and cash equivalents	7,139	2,928
Financial assets	10,043	6,988
Non-current financial liabilities	40,627	43,079
Provisions for pensions	6,532	5,866
Current financial liabilities	8,578	8,983
Financial liabilities	55,737	57,928
Net debt	45,694	50,940

## EBITDA

SEKm	2009	1909	2020:3	2019:3
Operating profit	12,567	9,811	3,817	3,779
-Amortization of acquisition-related intangible assets	610	576	201	196
-Depreciation/amortization	4,204	4,316	1,330	1,459
-Depreciation right-of-use asset	700	660	242	224
-Impairment	71	4	25	1
-Items affecting comparability - impairment net	186	-10	116	-73
EBITDA	18,338	15,357	5,731	5,586
-Items affecting comparability excluding depreciation/amortization and impairment	-129	721	-15	274
Adjusted EBITDA	18,209	16,078	5,716	5,860

## EBITA

SEKm	2009	1909	2020:3	2019:3
Operating profit	12,567	9,811	3,817	3,779
-Amortization of acquisition-related intangible assets	610	576	201	196
Operating profit before amortization of acquisition-related intangible assets/EBITA	13,177	10,387	4,018	3,975
EBITA margin (%)	14.5	10.9	14.0	12.2
-Items affecting comparability - cost of goods sold	203	232	94	-23
-Items affecting comparability - sales, general and administration	-146	479	7	224
Adjusted EBITA	13,234	11,098	4,119	4,176
Adjusted EBITA margin (%)	14.6	11.6	14.4	12.8

## Operating cash flow

SEKm	2009	1909	2020:3	2019:3
Personal Care				
Operating cash surplus	6,715	6,500	2,261	2,239
Change in working capital	-316	240	208	414
Investment in non-current assets, net	-1,026	-1,148	-385	-199
Restructuring costs, etc.	45	-586	-32	-434
Operating cash flow before investments in operating assets through leases	5,418	5,006	2,052	2,020
Investment in operating assets through leases	-66	-154	-36	-17
Operating cash flow	5,352	4,852	2,016	2,003
Consumer Tissue				
Operating cash surplus	8,189	5,550	2,557	1,991
Change in working capital	-954	-740	-1,135	-397
Investment in non-current assets, net	-1,854	-1,505	-749	-422
Restructuring costs, etc.	-236	-148	-149	-73
Operating cash flow before investments in operating assets through leases	5,145	3,157	524	1,099
Investment in operating assets through leases	-108	-144	-9	-113
Operating cash flow	5,037	3,013	515	986
Professional Hygiene				
Operating cash surplus	4,123	4,623	1,160	1,837
Change in working capital	-381	177	112	703
Investment in non-current assets, net	-800	-992	-310	-393
Restructuring costs, etc.	-487	-450	-179	-155
Operating cash flow before investments in operating assets through leases	2,455	3,358	783	1,992
Investment in operating assets through leases	-41	-43	0	-35
Operating cash flow	2,414	3,315	783	1,957

## Organic net sales

SEKm	2009	2020:3
Personal Care		
Organic net sales	-296	-186
Exchange rate effect <sup>1</sup>	-1,143	-978
Acquisition/Divestments	-41	63
Recognized change	-1,480	-1,101
Consumer Tissue		
Organic net sales	1,313	249
Exchange rate effect <sup>1</sup>	-797	-835
Acquisition/Divestments	0	0
Recognized change	516	-586
Professional Hygiene		
Organic net sales	-3,279	-1,738
Exchange rate effect <sup>1</sup>	-259	-463
Acquisition/Divestments	0	0
Recognized change	-3,538	-2,201
Essity		
Organic net sales	-2,252	-1,673
Exchange rate effect <sup>1</sup>	-2,201	-2,278
Acquisition/Divestments	-41	63
Recognized change	-4,494	-3,888

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