

Year-end Report 2020



Essity Aktiebolag (publ)



JANUARY 1 – DECEMBER 31, 2020

(compared with the corresponding period a year ago)

- Highest adjusted EBITA and highest adjusted EBITA margin ever
- Target raised for adjusted return on capital employed to above 17% by 2025
- Net sales declined 5.6% to SEK 121,752m (128,975)
- Organic net sales declined 1.9%
- Sales were negatively impacted by the COVID-19 pandemic and related lockdowns
- In emerging markets, which accounted for 37% of net sales, organic net sales increased 2.6%
- Operating profit before amortization of acquisition-related intangible assets (EBITA) increased 16% to SEK 17,567m (15,127)
- Adjusted EBITA increased 11% to SEK 17,626m (15,840)
- Adjusted EBITA margin increased 2.2 percentage points to 14.5% (12.3)
- Adjusted return on capital employed increased 1.9 percentage points to 15.7% (13.8)
- Profit for the period increased 15% to SEK 11,747m (10,212)
- Earnings per share increased 11% to SEK 14.56 (13.12)
- Adjusted earnings per share increased 5% to SEK 15.45 (14.69)
- Cash flow from current operations decreased 15% to SEK 11,175m (13,208)
- At an Extraordinary General Meeting on October 28, 2020, Essity resolved to pay a dividend of SEK 6.25 per share
- The Board of Directors proposes an increase in the dividend of 8% to SEK 6.75 (6.25*) per share

EARNINGS TREND

SEKm	2012	1912	%	2020:4	2019:4	%
Net sales	121,752	128,975	-6	30,956	33,686	-8
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) ¹	17,626	15,840	11	4,392	4,742	-7
Operating profit before amortization of acquisition-related intangible assets (EBITA)	17,567	15,127	16	4,390	4,740	-7
Amortization of acquisition-related intangible assets	-809	-778		-199	-202	
Adjusted operating profit ¹	16,817	15,062	12	4,193	4,540	-8
Items affecting comparability	-59	-713		-2	-2	
Operating profit	16,758	14,349	17	4,191	4,538	-8
Financial items	-958	-1,309		-172	-303	
Profit before tax	15,800	13,040	21	4,019	4,235	-5
Adjusted profit before tax ¹	15,859	13,753	15	4,021	4,237	-5
Income taxes	-4,053	-2,828		-990	-1,189	
Profit for the period	11,747	10,212	15	3,029	3,046	-1
Earnings per share, SEK	14.56	13.12		3.76	3.87	
Adjusted earnings per share, SEK ²	15.45	14.69		3.95	4.10	

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

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

*Dividend resolved at the Extraordinary General Meeting on October 28, 2020.

SUMMARY OF FULL-YEAR AND FOURTH QUARTER 2020

The COVID-19 pandemic has had a major impact on people and the global economy. Vaccinations have started and market conditions are gradually improving. Increased awareness of hygiene and health is positive for Essity. The COVID-19 pandemic and related lockdowns and restrictions had a negative effect on Essity's sales which mainly impacted Professional Hygiene and Medical Solutions. Despite this, profitability has developed positively. In 2020, Essity achieved its highest adjusted EBITA and the highest adjusted EBITA margin ever. The target for adjusted return on capital employed was raised to above 17% by 2025.

During the year, Essity has:

- Increased its market shares in many markets
- Increased online sales to approximately SEK 15bn for the full year. Online accounted for 15% of net sales in the fourth quarter.
- Accelerated the digital transformation and launched digital solutions, such as TENA SmartCare
- Broadened its offering with face masks and expanded supply capacity for hand sanitizer
- Improved underlying growth in Medical Solutions. Organic net sales for Wound Care increased 6.4% in the fourth quarter.
- Increased organic net sales in emerging markets by 2.6% and the adjusted EBITA margin by 2.7 percentage points to 12.9%
- Achieved continuous cost savings of SEK 1,056m and launched the Manufacturing Roadmap
- Acquired the MedTech companies ABIGO Medical AB and Novioscan
- Made a non-binding indicative proposal for the acquisition of additional shares in Asaleo Care Limited
- Significantly strengthened the balance sheet and financial position, which enable a higher rate of acquisitions.
- Qualified for the Dow Jones Sustainability Europe Index
- Reduced its carbon emissions by 11% according to Essity's Science Based Targets, Scope 1 and 2

In 2020, organic net sales declined 1.9%. The adjusted gross margin increased 3.0 percentage points to 32.5%. Adjusted EBITA increased 11% and the adjusted EBITA margin increased 2.2 percentage points to 14.5%. Adjusted return on capital employed increased 1.9 percentage points to 15.7%. Earnings per share increased 11% to SEK 14.56.

At an Extraordinary General Meeting on October 28, 2020, Essity resolved to pay a dividend of SEK 6.25 per share. The dividend was paid on November 4, 2020. For the 2020 fiscal year, the Board of Directors proposes an increase in the dividend of 8% to SEK 6.75 per share.

The Group's organic net sales declined 0.5% in the fourth quarter of 2020. The COVID-19 pandemic and related lockdowns and restrictions had a negative effect on Essity's sales which mainly impacted Professional Hygiene and Medical Solutions. Organic net sales for retail increased 5.4%. The Group's organic net sales in mature markets declined 5.1%. In emerging markets, which accounted for 39% of net sales, organic net sales increased 6.5%. The adjusted gross margin increased 1.0 percentage point to 32.7%. Adjusted EBITA, excluding exchange rate effects, increased 2%. The Group's adjusted EBITA margin increased 0.1 of a percentage point to 14.2%. Adjusted return on capital employed increased 0.3 of a percentage point to 16.1%. Earnings per share amounted to SEK 3.76.

ADJUSTED EARNINGS TREND

SEKm	2012	1912	%	2020:4	2019:4	%
Net sales	121,752	128,975	-6	30,956	33,686	-8
Cost of goods sold ¹	-82,132	-90,876		-20,820	-22,997	
Adjusted gross profit¹	39,620	38,099	4	10,136	10,689	-5
Sales, general and administration ¹	-21,994	-22,259		-5,744	-5,947	
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)¹	17,626	15,840	11	4,392	4,742	-7
Amortization of acquisition-related intangible assets	-809	-778		-199	-202	
Adjusted operating profit¹	16,817	15,062	12	4,193	4,540	-8
Financial items	-958	-1,309		-172	-303	
Adjusted profit before tax¹	15,859	13,753	15	4,021	4,237	-5
Adjusted Income taxes ¹	-4,054	-2,987		-993	-1,178	
Adjusted profit for the period¹	11,805	10,766	10	3,028	3,059	-1
¹ Excluding items affecting comparability; for amounts see page 12.						
Adjusted Margins (%)						
Gross margin¹	32.5	29.5		32.7	31.7	
EBITA margin¹	14.5	12.3		14.2	14.1	
Operating margin¹	13.8	11.7		13.5	13.5	
Financial net margin	-0.8	-1.0		-0.6	-0.9	
Profit margin¹	13.0	10.7		12.9	12.6	
Income taxes ¹	-3.3	-2.3		-3.2	-3.5	
Net margin¹	9.7	8.4		9.7	9.1	
¹ Excluding items affecting comparability; for amounts see page 12.						

ADJUSTED EBITA BY BUSINESS AREA

SEKm	2012	1912	%	2020:4	2019:4	%
Personal Care	7,161	6,746	6	1,879	1,756	7
Consumer Tissue	8,045	5,321	51	1,935	1,767	10
Professional Hygiene	3,317	4,463	-26	809	1,408	-43
Other	-897	-690		-231	-189	
Total¹	17,626	15,840	11	4,392	4,742	-7

¹ Excluding items affecting comparability; for amounts see page 12.**ADJUSTED OPERATING PROFIT BY BUSINESS AREA**

SEKm	2012	1912	%	2020:4	2019:4	%
Personal Care	6,395	6,014	6	1,690	1,567	8
Consumer Tissue	8,039	5,314	51	1,933	1,765	10
Professional Hygiene	3,280	4,424	-26	801	1,398	-43
Other	-897	-690		-231	-190	
Total¹	16,817	15,062	12	4,193	4,540	-8

¹ Excluding items affecting comparability; for amounts see page 12.**OPERATING CASH FLOW BY BUSINESS AREA**

SEKm	2012	1912	%	2020:4	2019:4	%
Personal Care	7,485	6,495	15	2,133	1,643	30
Consumer Tissue	6,455	4,870	33	1,418	1,857	-24
Professional Hygiene	3,183	4,938	-36	769	1,623	-53
Other	-1,105	-664		-198	-370	
Total	16,018	15,639	2	4,122	4,753	-13

GROUP

NET SALES AND EARNINGS

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

Net sales declined 5.6% compared with the corresponding period a year ago to SEK 121,752m (128,975). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 1.9%, of which volume accounted for -2.3% and price/mix for 0.4%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns and restrictions. Organic net sales declined 4.5% in mature markets and increased 2.6% in emerging markets. Emerging markets accounted for 37% of net sales. Exchange rate effects reduced net sales by 3.7%. 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 0.1%.

The Group's adjusted gross margin increased 3.0 percentage points to 32.5% (29.5) compared with the corresponding period a year ago. The gross margin was positively impacted by a better mix in all business areas, lower raw material and energy costs and cost savings. Continuous cost savings amounted to SEK 1,056m. The Group's adjusted EBITA margin rose 2.2 percentage points to 14.5% (12.3). Sales and marketing costs increased as a share of net sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 11% (16% excluding currency translation effects, acquisitions and divestments) to SEK 17,626m (15,840).

Items affecting comparability amounted to SEK -59m (-713) 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 -958m (-1,309). Lower interest and lower average net debt had a positive impact.

Adjusted profit before tax increased 15% (20% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 15,859m (13,753).

The tax expense, excluding effects of items affecting comparability, was SEK 4,054m (2,987).

Adjusted profit for the period increased 10% (15% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 11,805m (10,766).

Profit for the period increased 15% (20% excluding currency translation effects, acquisitions and divestments) to SEK 11,747m (10,212). Earnings per share were SEK 14.56 (13.12). The adjusted earnings per share were SEK 15.45 (14.69).

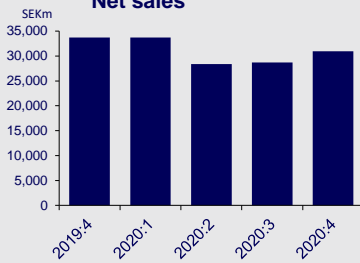
The adjusted return on capital employed was 15.7% (13.8). The adjusted return on equity was 18.3% (18.4).

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

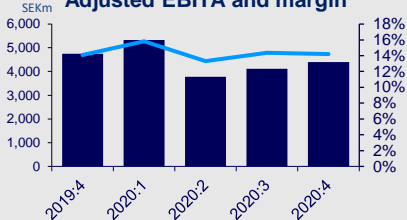
Net sales declined 8.1% compared with the corresponding period a year ago to SEK 30,956m (33,686). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 0.5%, of which volume accounted for 0.1% and price/mix for -0.6%. Net sales were negatively affected by the COVID-19 pandemic and related lockdowns and restrictions, which mainly impacted Professional Hygiene and Medical Solutions. In Medical Solutions, sales in orthopedics and compression therapy were negatively impacted, while organic net sales increased 6.4% in wound care. For retail, organic net sales increased 5.4%. The Group's organic net sales declined 5.1% in mature markets and increased 6.5% in emerging markets. Emerging markets accounted for 39% of net sales. Exchange rate effects reduced net sales by 7.8%. 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 fourth quarter of 2020 increased 1.0 percentage points to 32.7% (31.7) compared with the corresponding period a year ago. The gross margin was positively impacted by a better mix in all business areas, lower raw material costs and cost savings. Continuous cost savings amounted to SEK 434m. Lower prices and higher promotional activity in the business area Consumer Tissue had a negative impact on the gross margin. The

Net sales



Adjusted EBITA and margin



Excluding items affecting comparability

Change in net sales (%)

	2012 vs 1912	20:4 vs 19:4
Total	-5.6	-8.1
Volume	-2.3	0.1
Price/mix	0.4	-0.6
Currency	-3.7	-7.8
Acquisitions	0.1	0.2
Divestments	-0.1	0.0

Change in adjusted EBITA (%)

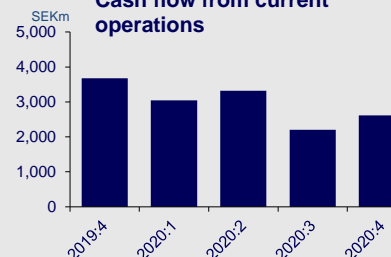
	2012 vs 1912	20:4 vs 19:4
Total	11	-7
Volume	-7	-2
Price/mix	2	-5
Raw materials	27	11
Energy	2	-1
Currency	-4	-9
Other	-9	-1

Adjusted profit before tax



Excluding items affecting comparability

Cash flow from current operations



Group's adjusted EBITA margin rose 0.1 of a percentage point to 14.2% (14.1). Sales and marketing costs increased as a share of net sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 7% (increased 2% excluding currency translation effects, acquisitions and divestments) to SEK 4,392m (4,742).

Adjusted profit before tax decreased 5% (increased 5% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 4,021m (4,237).

Profit for the period decreased 1% (increased 9% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 3,029m (3,046). Earnings per share were SEK 3.76 (3.87). The adjusted earnings per share were SEK 3.95 (4.10).

The adjusted return on capital employed was 16.1% (16.4). The adjusted return on equity was 18.7% (19.9).

CASH FLOW AND FINANCING

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

The operating cash surplus amounted to SEK 24,653m (22,932). The cash flow effect of changes in working capital was SEK -810m (359). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -6,439m (-5,707). Operating cash flow before investments in operating assets through leases amounted to SEK 16,427m (16,090). Investments in operating assets through leases amounted to SEK -409m (-451). Operating cash flow was SEK 16,018m (15,639).

Financial items decreased to SEK -958m (-1,309). Lower interest and lower average net debt had a positive impact.

Tax payments had an impact on cash flow of SEK -3,917m (-1,130). 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 -380m (77). Net cash flow totaled SEK 6,046m (8,915).

Net debt decreased by SEK 8,252m during the period and amounted to SEK 42,688m. Excluding pension liabilities, net debt amounted to SEK 40,176m. Net cash flow reduced net debt by SEK 6,046m. 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 199m. Exchange rate movements reduced net debt by SEK 2,804m. Investments in non-operating assets through leases increased net debt by SEK 399m. The debt/equity ratio was 0.67 (0.81). Excluding pension liabilities, the debt/equity ratio was 0.63 (0.76). The debt payment capacity was 46% (38). Net debt in relation to adjusted EBITDA amounted to 1.76 (2.25).

EQUITY

January–December 2020

The Group's equity increased by SEK 541m during the period, to SEK 63,342m. Net profit for the period increased equity by SEK 11,747m. Equity decreased due to dividends to shareholders of SEK 4,843m. Equity increased net after tax by SEK 78m 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 349m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, reduced equity by SEK 6,896m. Other items increased equity by SEK 106m.

TAX

January–December 2020

A tax expense of SEK 4,054m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 25.6% for the period. The tax expense including items affecting comparability was SEK 4,053m, corresponding to a tax rate of 25.7% for the period.

DIVIDEND

The Board of Directors proposes an increase in dividend of 8% to SEK 6.75 (6.25) per share or SEK 4,741m (4,390). March 29, 2021 is proposed as the record date for the right to receive dividends. At an Extraordinary General Meeting on October 28, 2020, Essity resolved to pay a dividend of SEK 6.25 per share. The dividend was paid on November 4, 2020.

EVENTS DURING THE QUARTER

Essity divests partly owned company in Tunisia

On October 21, 2020, Essity announced that the company is divesting 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. The divestment was completed in December 2020 and gave rise to a gain of SEK 29m, which is recognized as an item affecting comparability in Q4 2020.

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.

Bulletin from Extraordinary General Meeting of Essity

At an Extraordinary General Meeting on October 28, 2020, Essity resolved to pay a dividend of SEK 6.25 per share. The dividend was paid on November 4, 2020.

Essity included in Dow Jones Sustainability Index

On November 14, 2020 Essity announced that the company has been included in the Dow Jones Sustainability Index, one of the world's most prestigious sustainability indices. Essity has qualified for inclusion in the Dow Jones Sustainability Europe Index in the Household Products category. Essity received high scores for its environmental and social reporting, its work with suppliers, its brand work, its innovations and its climate strategy.

Essity launches Hygiene and Health Report at United Nations Foundation 2020 Global Dialogue

On November 16, 2020 Essity announced that the company is continuing with its commitment to breaking barriers to well-being by being a convening partner to the United Nations Foundation's annual Global Dialogue on the Sustainable Development Goals (SDGs). In conjunction with the meeting, Essity launched the seventh edition of the Hygiene and Health Report made in collaboration with United Nation's entity Water Supply and Sanitation Collaborative Council (WSSCC).

Essity recognized by CDP with prestigious 'A' score for sustainability

On December 8, 2020 Essity announced that the company had been recognized for its leadership in corporate sustainability by global environmental non-profit CDP, securing a place on its prestigious 'A List' for tackling deforestation. Through significant demonstrable action to tackle deforestation in its supply chain and source more sustainable commodities, Essity is leading on corporate environmental ambition, action and transparency worldwide. Essity is also taking a leading role in management of carbon and climate change risk, which is reflected in an A- score by CDP.

Essity announces proposal to increase ownership in Asaleo Care Limited

On December 10, 2020 Essity Aktiebolag (publ) ("Essity") announced that the company has made a non-binding indicative proposal to the Board of Directors of the hygiene company Asaleo Care Limited ("Asaleo") for the acquisition of additional shares in Asaleo for a consideration of AUD 1.26 per share. Asaleo is listed on the Australian Securities Exchange (ASX). Essity is the largest shareholder of Asaleo, holding 36.2% of the shares. Asaleo's market capitalization on ASX amounted to AUD 549m, based on the closing market price AUD 1.01 on December 9, 2020.

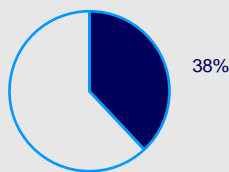
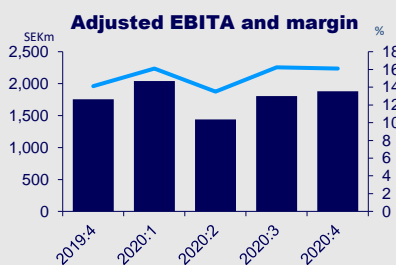
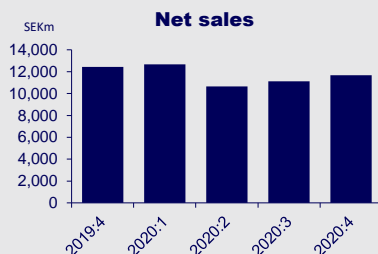
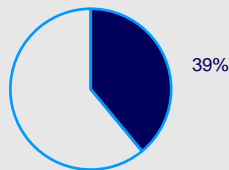
There can be no certainty that any agreement will be reached, that a formal binding proposal will be submitted, or that a transaction will be undertaken.

The proposal is not subject to financing conditions. Essity will finance its acquisition of shares through own funds.

EVENTS AFTER THE QUARTER

Essity ranked as one of the most sustainable companies in the world

On January 25, 2021 Essity announced that the company has been recognized as one of the world's 100 most sustainable companies by Corporate Knights. The list was announced during the World Economic Forum. Corporate Knights analyzes and compares 8,080 companies with a minimum gross revenue of USD 1bn against global industry peers.

Share of Group, net sales
2012Share of Group, adjusted EBITA
2012

Change in net sales (%)

	2012 vs 1912	20:4 vs 19:4
Total	-4.6	-6.2
Volume	-1.4	1.0
Price/mix	1.4	1.2
Currency	-4.6	-8.9
Acquisitions	0.3	0.5
Divestments	-0.3	0.0

Change in adjusted EBITA (%)

	2012 vs 1912	20:4 vs 19:4
Total	6	7
Volume	-6	1
Price/mix	8	7
Raw materials	10	9
Energy	0	0
Currency	-5	-11
Other	-1	1

PERSONAL CARE

SEKm	2012	1912	%	2020:4	2019:4	%
Net sales	46,095	48,340	-5	11,660	12,425	-6
Adjusted gross profit margin, %*	41.4	39.4		42.3	40.2	
Adjusted EBITA*	7,161	6,746	6	1,879	1,756	7
Adjusted EBITA margin, %*	15.5	14.0		16.1	14.1	
Adjusted operating profit*	6,395	6,014	6	1,690	1,567	8
Adjusted operating margin, %*	13.9	12.4		14.5	12.6	
Adjusted return on capital employed, %*	16.4	15.2		17.9	15.6	
Operating cash flow	7,485	6,495		2,133	1,643	

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

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

Net sales declined 4.6% to SEK 46,095m (48,340). Organic net sales were in line with the preceding year, of which volume accounted for -1.4% and price/mix for 1.4%. Organic net sales in mature markets declined 1.7%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 2.7%. Exchange rate effects reduced net sales by 4.6%. The divestment of a partly owned company in Turkey reduced net sales by 0.3%. 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 2.7%. Growth was related to Europe, North America and emerging markets. In Medical Solutions, organic net sales decreased 8.2%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns and restrictions. For Baby Care, organic net sales declined 2.5%, 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 41.4% (39.4). The margin was positively impacted by higher prices, a better mix, lower raw material costs and cost savings. Lower volumes and higher distribution costs had a negative impact on the margin. The adjusted EBITA margin increased by 1.5 percentage points to 15.5% (14.0). Sales and marketing costs increased as a share of net sales. Adjusted EBITA increased 6% (12% excluding currency translation effects, acquisitions and divestments) to SEK 7,161m (6,746).

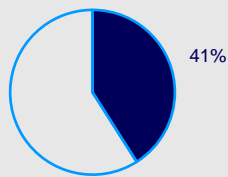
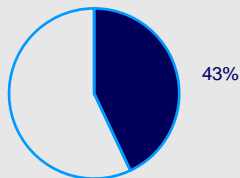
The operating cash surplus amounted to SEK 9,089m (8,785).

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

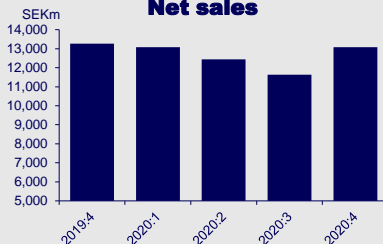
Net sales declined 6.2% to SEK 11,660m (12,425). Organic net sales increased 2.2%, of which volume accounted for 1.0% and price/mix for 1.2%. Organic net sales in mature markets increased 0.6%. In emerging markets, which accounted for 35% of net sales, organic net sales increased 4.2%. Exchange rate effects reduced net sales by 8.9%. Acquisitions increased net sales by 0.5%.

Sales were negatively impacted by the COVID-19 pandemic as demand was temporarily negatively impacted by 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 increased 2.8%. The increase was related to Europe, North America and emerging markets. In Medical Solutions, organic net sales decreased 2.1%. Sales in orthopedics and compression therapy were negatively impacted by COVID-19-related lockdowns and restrictions, while organic net sales increased 6.4% in wound care. For Baby Care, organic net sales increased 3.4% related to Western Europe. For Feminine Care, organic net sales increased 5.3%, related to emerging markets.

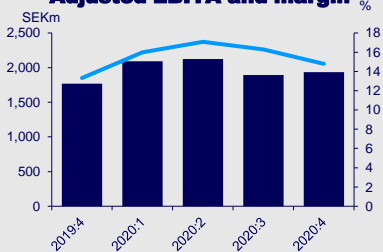
The adjusted gross margin increased 2.1 percentage points to 42.3% (40.2). The margin was positively impacted by higher volumes, higher prices, a better mix, lower raw material costs and cost savings. The adjusted EBITA margin increased by 2.0 percentage points to 16.1% (14.1). Sales and marketing cost were unchanged as a share of net sales. Adjusted EBITA rose 7% (18% excluding currency translation effects, acquisitions and divestments) to SEK 1,879m (1,756).

Share of Group, net sales
2012Share of Group, adjusted EBITA
2012

Net sales



Adjusted EBITA and margin %



Change in net sales (%)

	2012 vs 1912	20:4 vs 19:4
Total	0.6	-1.5
Volume	5.7	9.1
Price/mix	-1.6	-3.5
Currency	-3.5	-7.1
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	2012 vs 1912	20:4 vs 19:4
Total	51	10
Volume	14	19
Price/mix	-14	-25
Raw materials	59	25
Energy	5	0
Currency	-4	-9
Other	-9	0

CONSUMER TISSUE

SEKm	2012	1912	%	2020:4	2019:4	%
Net sales	50,221	49,904	1	13,070	13,269	-1
Adjusted gross profit margin, %*	27.2	21.7		26.9	24.8	
Adjusted EBITA*	8,045	5,321	51	1,935	1,767	10
Adjusted EBITA margin, %*	16.0	10.7		14.8	13.3	
Adjusted operating profit*	8,039	5,314	51	1,933	1,765	10
Adjusted operating margin, %*	16.0	10.6		14.8	13.3	
Adjusted return on capital employed, %*	17.3	11.2		16.9	14.8	
Operating cash flow	6,455	4,870		1,418	1,857	

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

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

Net sales increased 0.6% to SEK 50,221m (49,904). Organic net sales increased 4.1%. Volumes accounted for an increase of 5.7% and the price/mix a decrease of -1.6%. Organic net sales increased 1.7% in mature markets. In emerging markets, which accounted for 47% of net sales, organic net sales increased by 6.9%. Exchange rate effects decreased net sales by 3.5%.

The adjusted gross margin increased 5.5 percentage points to 27.2% (21.7). The gross margin was positively impacted by higher volumes, a better mix, lower raw material and energy costs and cost savings. Higher distribution costs and lower prices had a negative impact on the margin. The adjusted EBITA margin increased by 5.3 percentage points to 16.0% (10.7). Sales and marketing costs increased as a share of net sales.

Adjusted EBITA increased 51% (55% excluding currency translation effects, acquisitions and divestments) to SEK 8,045m (5,321).

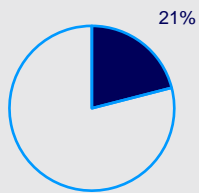
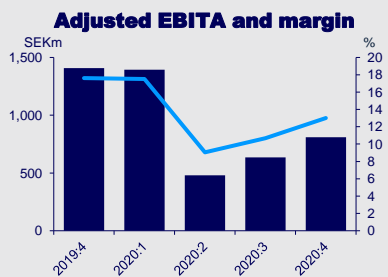
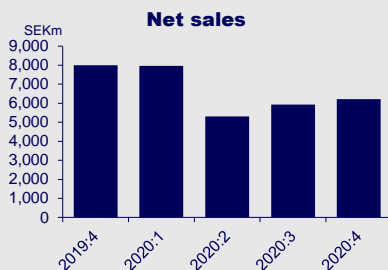
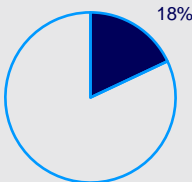
The operating cash surplus totaled SEK 10,817m (8,107).

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

Net sales decreased 1.5% to SEK 13,070m (13,269). Organic net sales increased 5.6%. Volumes accounted for an increase of 9.1% and the price/mix a decrease of 3.5% as a result of lower prices and a better mix. Organic net sales decreased 0.7% in mature markets. In emerging markets, which accounted for 50% of net sales, organic net sales increased by 12.0%. Exchange rate effects reduced net sales by 7.1%.

The adjusted gross margin increased 2.1 percentage points to 26.9% (24.8). The gross margin was positively impacted by higher volumes, a better mix, cost savings and lower raw material costs. Lower prices and higher promotional activities had a negative impact on the margin. The adjusted EBITA margin increased by 1.5 percentage points to 14.8% (13.3). Sales and marketing costs increased as a share of net sales.

Adjusted EBITA increased 10% (18% excluding currency translation effects, acquisitions and divestments) to SEK 1,935m (1,767).

Share of Group, net sales
2012Share of Group, adjusted EBITA
2012

Change in net sales (%)

	2012 vs 1912	20:4 vs 19:4
Total	-17.3	-22.2
Volume	-16.7	-16.3
Price/mix	2.1	1.2
Currency	-2.7	-7.1
Acquisitions	0.0	0.0
Divestments	0.0	0.0

Change in adjusted EBITA (%)

	2012 vs 1912	20:4 vs 19:4
Total	-26	-43
Volume	-34	-30
Price/mix	10	5
Raw materials	11	-6
Energy	0	-2
Currency	-3	-6
Other	-10	-4

PROFESSIONAL HYGIENE

SEKm	2012	1912	%	2020:4	2019:4	%
Net sales	25,418	30,731	-17	6,216	7,991	-22
Adjusted gross profit margin, %*	26.9	26.8		27.1	30.1	
Adjusted EBITA*	3,317	4,463	-26	809	1,408	-43
Adjusted EBITA margin, %*	13.0	14.5		13.0	17.6	
Adjusted operating profit*	3,280	4,424	-26	801	1,398	-43
Adjusted operating margin, %*	12.9	14.4		12.9	17.5	
Adjusted return on capital employed, %*	14.6	18.9		15.0	23.8	
Operating cash flow	3,183	4,938		769	1,623	

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

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

Net sales declined 17.3% to SEK 25,418m (30,731). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 14.6%. Sales were negatively impacted by the COVID-19 pandemic and related lockdowns and restrictions. Volumes declined by 16.7%. The price/mix increased 2.1% as a result of higher prices and a better mix. Organic net sales declined 14.8% in mature markets. In emerging markets, which accounted for 20% of net sales, organic net sales declined by 13.8%. Exchange rate effects reduced net sales by 2.7%.

The adjusted gross margin increased 0.1 of a percentage point to 26.9% (26.8). The gross margin was positively impacted by higher prices, a better mix, lower raw material costs and cost savings. Lower volumes and higher distribution costs had a negative impact on the margin. The adjusted EBITA margin decreased 1.5 percentage points to 13.0% (14.5). Sales and marketing costs increased as a share of net sales.

Adjusted EBITA decreased 26% (23% excluding currency translation effects, acquisitions and divestments) to SEK 3,317m (4,463).

The operating cash surplus was SEK 5,479m (6,589).

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

Net sales declined 22.2% to SEK 6,216m (7,991). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 15.1%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns and restrictions. This has mainly had a negative impact on demand in the customer segments of hotel, restaurant, catering, commercial buildings as well as schools and universities. Meanwhile, sales of dispensers have increased as a result of a greater focus on hygiene, with many customers replacing air dryers in favor of offering a more hygienic alternative. Furthermore, sales increased for wiping and cleaning products, as well as soap and hand sanitizer. Volumes declined by 16.3%. The price/mix increased 1.2% as a result of a better mix. Organic net sales declined 16.9% in mature markets. In emerging markets, which accounted for 22% of net sales, organic net sales declined by 8.6%. Exchange rate effects reduced net sales by 7.1%.

The adjusted gross margin declined 3.0 percentage points to 27.1% (30.1). The gross margin was positively impacted by a better mix and cost savings. Lower volumes and higher raw material and energy costs had a negative impact on the margin. The adjusted EBITA margin declined by 4.6 percentage points to 13.0% (17.6). A one-off effect related to reduced pension liabilities in the US had a positive effect on the EBITA margin of 0.9 of a percentage point in the fourth quarter of 2019. Sales and marketing costs increased as a share of net sales.

Adjusted EBITA declined 43% (37% excluding currency translation effects, acquisitions and divestments) to SEK 809m (1,408).

DISTRIBUTION OF SHARES

December 31, 2020	Class A	Class B	Total
Registered number of shares	61,735,172	640,607,317	702,342,489

At the end of the period, the proportion of Class A shares was 8.8%. During the fourth quarter, 80 Class A shares were converted into Class B shares at the request of shareholders. The total number of votes in the company amounts to 1,257,959,037.

FUTURE REPORTS

Essity's Annual Report for 2020 is intended to be published during the week starting March 1, 2021. In 2021, interim reports will be published on April 23, July 16 and October 22.

ANNUAL GENERAL MEETING

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

INVITATION TO PRESENTATION OF THE YEAR-END REPORT 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: Wednesday, January 27, 2021

Time: 9:00 a.m.

Link to web presentation: <https://essity.videosync.fi/2021-01-27-g4>

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. 7569943.

Stockholm, January 27, 2021

Essity Aktiebolag (publ)

Magnus Groth
President and CEO

This report has not been reviewed by Essity's auditors.

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 January 27, 2021.

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

CONDENSED STATEMENT OF PROFIT OR LOSS

SEKm	2020:4	2019:4	2020:3	2012	1912
Net sales	30,956	33,686	28,677	121,752	128,975
Cost of goods sold ^{1,2}	-20,820	-22,997	-19,389	-82,132	-90,876
Items affecting comparability - cost of goods sold ²	22	-11	-94	-181	-243
Gross profit	10,158	10,678	9,194	39,439	37,856
Sales, general and administration ^{1,2}	-5,777	-5,986	-5,181	-22,088	-22,319
Items affecting comparability - sales, general and administration ²	-24	9	-7	122	-470
Share of profits of associated companies and joint ventures	33	39	12	94	60
Operating profit before amortization of acquisition-related intangible assets (EBITA)	4,390	4,740	4,018	17,567	15,127
Amortization of acquisition-related intangible assets	-199	-202	-201	-809	-778
Operating profit	4,191	4,538	3,817	16,758	14,349
Financial items	-172	-303	-184	-958	-1,309
Profit before tax	4,019	4,235	3,633	15,800	13,040
Income taxes	-990	-1,189	-1,033	-4,053	-2,828
Profit for the period	3,029	3,046	2,600	11,747	10,212
Earnings attributable to:					
Owners of the Parent company	2,640	2,716	2,265	10,228	9,216
Non-controlling interests	389	330	335	1,519	996
Earnings per share, SEK - owners of the Parent company					
- before and after dilution effects	3.76	3.87	3.22	14.56	13.12
Average number of shares before and after dilution, millions	702.3	702.3	702.3	702.3	702.3
¹ Of which, depreciation/amortization	-1,835	-1,925	-1,773	-7,349	-7,477
² Of which, impairment	-65	-58	-141	-322	-52
Gross margin	32.8	31.7	32.1	32.4	29.4
EBITA margin	14.2	14.1	14.0	14.4	11.7
Operating margin	13.5	13.5	13.3	13.8	11.1
Financial net margin	-0.6	-0.9	-0.6	-0.8	-1.0
Profit margin	12.9	12.6	12.7	13.0	10.1
Income taxes	-3.2	-3.5	-3.6	-3.3	-2.2
Net margin	9.7	9.1	9.1	9.7	7.9
Excluding items affecting comparability:					
Gross margin	32.7	31.7	32.4	32.5	29.5
EBITA margin	14.2	14.1	14.4	14.5	12.3
Operating margin	13.5	13.5	13.7	13.8	11.7
Financial net margin	-0.6	-0.9	-0.6	-0.8	-1.0
Profit margin	12.9	12.6	13.1	13.0	10.7
Income taxes	-3.2	-3.5	-3.7	-3.3	-2.3
Net margin	9.7	9.1	9.4	9.7	8.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEKm	2020:4	2019:4	2020:3	2012	1912
Profit for the period	3,029	3,046	2,600	11,747	10,212
Other comprehensive income for the period					
Items that may not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	2,531	2,486	388	-202	482
Fair value through other comprehensive income	3	0	2	3	6
Income tax attributable to components in other comprehensive income	-297	-392	-85	279	52
	2,237	2,094	305	80	540
Items that have been or may be reclassified subsequently to the income statement					
Cash flow hedges					
Result from remeasurement of derivatives recognized in equity	209	-325	74	-9	-725
Transferred to profit or loss for the period	46	58	130	473	112
Translation differences in foreign operations	-4,508	-2,359	-1,518	-8,092	2,095
Gains/losses from hedges of net investments in foreign operations	1,061	189	367	1,504	-168
Other comprehensive income from associated companies	-8	1	-2	-20	-14
Income tax attributable to components in other comprehensive income	-283	25	-127	-415	179
	-3,483	-2,411	-1,076	-6,559	1,479
Other comprehensive income for the period, net of tax	-1,246	-317	-771	-6,479	2,019
Total comprehensive income for the period	1,783	2,729	1,829	5,268	12,231
Total comprehensive income attributable to:					
Owners of the Parent company	1,829	2,687	1,613	4,588	11,006
Non-controlling interests	-46	42	216	680	1,225

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

SEKm	2012	1912
Attributable to owners of the Parent company		
Value, January 1	54,125	47,141
Total comprehensive income for the period	4,588	11,006
Dividend	-4,390	-4,038
Acquisition of non-controlling interests	-1	0
Private placement to non-controlling interests	33	2
Transferred to cost of hedged investments	-2	14
Revaluation effect on acquisition of non-controlling interests	-1	0
Value, December 31	54,352	54,125
Non-controlling interests		
Value, January 1	8,676	7,758
Total comprehensive income for the period	680	1,225
Dividend	-453	-336
Private placement to non-controlling interests	31	2
Divestment of non-controlling interests	57	27
Acquisition of non-controlling interests	-1	0
Value, December 31	8,990	8,676
Total equity, value December 31	63,342	62,801

CONSOLIDATED OPERATING CASH FLOW STATEMENT

SEKm	2012	1912
Operating cash surplus	24,653	22,932
Change in working capital	-810	359
Investment in non-current assets, net	-6,439	-5,707
Restructuring costs, etc.	-977	-1,494
Operating cash flow before investments in operating assets through leases	16,427	16,090
Investments in operating assets through leases	-409	-451
Operating cash flow	16,018	15,639
Financial items	-958	-1,309
Income taxes paid	-3,917	-1,130
Other	32	8
Cash flow from current operations	11,175	13,208
Acquisitions of Group companies and other operations	-747	-143
Divestments of Group companies and other operations	367	220
Cash flow before transactions with shareholders	10,795	13,285
Private placement to non-controlling interest	64	4
Dividend to non-controlling interests	-423	-336
Dividend	-4,390	-4,038
Net cash flow	6,046	8,915
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	6,046	8,915
Remeasurements to equity	-199	487
Investments in non-operating assets through leases	-399	-434
Translation differences	2,804	-1,718
Net debt at the end of the period	-42,688	-50,940
Debt/equity ratio	0.67	0.81
Debt payment capacity, %	46	38
Net debt / EBITDA	1.75	2.33
Net debt / Adjusted EBITDA	1.76	2.25

CONSOLIDATED CASH FLOW STATEMENT

SEKm	2012	1912
Operating activities		
Operating profit	16,758	14,349
Adjustment for non-cash items ¹⁾	7,812	8,193
Interest paid	-872	-1,010
Interest received	101	105
Other financial items	-205	-420
Change in liabilities relating to restructuring programs, etc.	-1,048	-1,095
Paid tax	-3,917	-1,130
Cash flow from operating activities before changes in working capital	18,629	18,992
Cash flow from changes in working capital		
Change in inventories	-2,207	-194
Change in operating receivables	53	-1,949
Change in operating liabilities	1,344	2,502
Cash flow from operating activities	17,819	19,351
Investing activities		
Acquisitions of Group companies and other operations	-668	-143
Divestments of Group companies and other operations	65	5
Investments in intangible assets and property, plant and equipment	-6,587	-5,908
Sale of property, plant and equipment	169	239
Loans granted to external parties	-54	-62
Paid interest capitalized in intangible asset and property, plant and equipment	-20	-39
Cash flow from investing activities	-7,095	-5,908
Financing activities		
Private placement to non-controlling interests	64	4
Dividend	-4,390	-4,038
Proceeds from borrowings	6,474	2,448
Repayment of borrowings	-10,100	-11,708
Dividend to non-controlling interests	-423	-336
Cash flow from financing activities	-8,375	-13,630
Cash flow for the period	2,349	-187
Cash and cash equivalents at the beginning of the period	2,928	3,008
Translation differences in cash and cash equivalents	-295	107
Cash and cash equivalents at the end of the period	4,982	2,928
Cash flow from operating activities per share, SEK	25.37	27.55
Reconciliation with consolidated operating cash flow statement		
Cash flow for the period	2,349	-187
Repayment of borrowings	10,100	11,708
Proceeds from borrowings	-6,474	-2,448
Loans granted to external parties	54	62
Impact from settlement of pension liability	187	0
Investment through financial lease	-409	-451
Net debt in acquired and divested operations	205	215
Not paid financial receivable at divestment of group companies	18	-
Accrued interest	18	17
Other	-2	-1
Net cash flow according to consolidated operating cash flow statement	6,046	8,915
¹⁾ Adjustment for non-cash items		
Depreciation/amortization and impairment of non-current assets	7,671	7,529
Gain/loss on asset sales	-44	24
Impact from settlement of pension liability	-187	0
Gain/loss on divestments	-69	160
Non-cash items relating to efficiency program	-19	128
Other	460	352
Total	7,812	8,193

CONSOLIDATED BALANCE SHEET

SEKm	December 31, 2020	December 31, 2019
Assets		
Goodwill	32,324	34,581
Other intangible assets	18,574	21,182
Property, plant and equipment	53,631	56,900
Participation in joint ventures and associates	847	865
Shares and participations	7	8
Surplus in funded pension plans	2,817	2,841
Non-current financial assets	738	694
Deferred tax assets	1,823	2,539
Other non-current assets	768	704
Total non-current assets	111,529	120,314
Inventories	16,383	15,764
Trade receivables	17,825	19,864
Current tax assets	760	745
Other current receivables	2,173	2,113
Current financial assets	993	525
Non-current assets held for sale	0	42
Cash and cash equivalents	4,982	2,928
Total current assets	43,116	41,981
Total assets	154,645	162,295
Equity		
Share capital	2,350	2,350
Reserves	581	6,284
Retained earnings	51,421	45,491
Attributable to owner of the Parent	54,352	54,125
Non-controlling interests	8,990	8,676
Total equity	63,342	62,801
Liabilities		
Non-current financial liabilities	38,202	43,079
Provisions for pensions	5,328	5,866
Deferred tax liabilities	6,150	6,545
Other non-current provisions	445	541
Other non-current liabilities	105	183
Total non-current liabilities	50,230	56,214
Current financial liabilities	8,688	8,983
Trade payables	14,791	15,802
Current tax liabilities	2,301	2,432
Current provisions	748	1,065
Other current liabilities	14,545	14,998
Total current liabilities	41,073	43,280
Total liabilities	91,303	99,494
Total equity and liabilities	154,645	162,295

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	December 31, 2020	December 31, 2019
Debt/equity ratio	0.67	0.81
Equity/assets ratio	35%	33%
Equity	63,342	62,801
Equity per share	90	89
Return on equity	18.2%	17.4%
Return on equity excluding items affecting comparability	18.3%	18.4%
Capital employed	106,030	113,741
- of which working capital	7,146	6,782
Return on capital employed*	15.6%	13.2%
Return on capital employed* excluding items affecting comparability	15.7%	13.8%
Net debt	42,688	50,940
Provisions for restructuring costs are included in the balance sheet as follows		
-Other non-current provisions	137	184
-Other current provisions	263	603
*) rolling 12 months		

NET SALES (business area reporting)

SEKm	2012	1912	2020:4	2020:3	2020:2	2020:1	2019:4	2019:3
Personal Care	46,095	48,340	11,660	11,115	10,651	12,669	12,425	12,216
Consumer Tissue	50,221	49,904	13,070	11,634	12,437	13,080	13,269	12,220
Professional Hygiene	25,418	30,731	6,216	5,930	5,315	7,957	7,991	8,131
Other	18	0	10	-2	4	6	1	-2
Total net sales	121,752	128,975	30,956	28,677	28,407	33,712	33,686	32,565

ADJUSTED EBITA (business area reporting)

SEKm	2012	1912	2020:4	2020:3	2020:2	2020:1	2019:4	2019:3
Personal Care	7,161	6,746	1,879	1,805	1,438	2,039	1,756	1,739
Consumer Tissue	8,045	5,321	1,935	1,894	2,124	2,092	1,767	1,319
Professional Hygiene	3,317	4,463	809	634	481	1,393	1,408	1,288
Other	-897	-690	-231	-214	-261	-191	-189	-170
Total adjusted EBITA	17,626	15,840	4,392	4,119	3,782	5,333	4,742	4,176

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	2012	1912	2020:4	2020:3	2020:2	2020:1	2019:4	2019:3
Personal Care	6,395	6,014	1,690	1,614	1,241	1,850	1,567	1,554
Consumer Tissue	8,039	5,314	1,933	1,894	2,122	2,090	1,765	1,317
Professional Hygiene	3,280	4,424	801	624	472	1,383	1,398	1,278
Other	-897	-690	-231	-214	-261	-191	-190	-169
Total adjusted operating profit¹	16,817	15,062	4,193	3,918	3,574	5,132	4,540	3,980
Financial items	-958	-1,309	-172	-184	-283	-319	-303	-320
Profit before tax¹	15,859	13,753	4,021	3,734	3,291	4,813	4,237	3,660
Income taxes	-4,054	-2,987	-993	-1,049	-823	-1,189	-1,178	-730
Net profit for the period²	11,805	10,766	3,028	2,685	2,468	3,624	3,059	2,930
¹ Excluding items affecting comparability before tax amounting to:	-59	-713	-2	-101	61	-17	-2	-201
² Excluding items affecting comparability after tax amounting to:	-58	-554	1	-85	40	-14	-13	-194

ADJUSTED EBITA MARGIN (business area reporting)

%	2012	1912	2020:4	2020:3	2020:2	2020:1	2019:4	2019:3
Personal Care	15.5	14.0	16.1	16.2	13.5	16.1	14.1	14.2
Consumer Tissue	16.0	10.7	14.8	16.3	17.1	16.0	13.3	10.8
Professional Hygiene	13.0	14.5	13.0	10.7	9.0	17.5	17.6	15.8

STATEMENT OF PROFIT OR LOSS

SEKm	2020:4	2020:3	2020:2	2020:1	2019:4
Net sales	30,956	28,677	28,407	33,712	33,686
Cost of goods sold	-20,820	-19,389	-19,260	-22,663	-22,997
Items affecting comparability - cost of goods sold	22	-94	-100	-9	-11
Gross profit	10,158	9,194	9,047	11,040	10,678
Sales, general and administration	-5,777	-5,181	-5,381	-5,749	-5,986
Items affecting comparability - sales, general and administration	-24	-7	161	-8	9
Share of profits of associates and joint ventures	33	12	16	33	39
EBITA	4,390	4,018	3,843	5,316	4,740
Amortization of acquisition-related intangible assets	-199	-201	-208	-201	-202
Operating profit	4,191	3,817	3,635	5,115	4,538
Financial items	-172	-184	-283	-319	-303
Profit before tax	4,019	3,633	3,352	4,796	4,235
Income taxes	-990	-1,033	-844	-1,186	-1,189
Net profit for the period	3,029	2,600	2,508	3,610	3,046

CONDENSED INCOME STATEMENT PARENT COMPANY

SEKm	2012	1912
Administrative expenses	-705	-663
Other operating income	265	209
Operating loss	-440	-454
Financial items	3,045	4,552
Profit before tax	2,605	4,098
Appropriations and income taxes	31	24
Profit for the period	2,636	4,122

CONDENSED BALANCE SHEET PARENT COMPANY

SEKm	December 31, 2020	December 31, 2019
Intangible assets	0	0
Property, plant and equipment	14	16
Financial non-current assets	176,401	176,352
Total non-current assets	176,415	176,368
Total current assets	2,140	1,794
Total assets	178,555	178,162
Restricted equity	2,350	2,350
Non-restricted equity	86,189	87,942
Total equity	88,539	90,292
Untaxed reserves	5	4
Provisions	874	877
Non-current liabilities	31,710	36,386
Current liabilities	57,427	50,603
Total equity, provisions and liabilities	178,555	178,162

NOTES

1 ACCOUNTING PRINCIPLES

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

Effective January 1, 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 "Events during the quarter" 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	
						1	2
December 31, 2020							
Derivatives	1,650	571	1,079	-	-	-	1,650
Non-current financial assets	96	-	-	96	-	96	-
Total assets	1,746	571	1,079	96	-	96	1,650
Derivatives	753	682	71	-	-	-	753
Financial liabilities							
Current financial liabilities	7,895	5,038	-	-	2,857	-	5,038
Non-current financial liabilities	38,199	10,615	-	-	27,584	-	10,615
Total liabilities	46,847	16,335	71	-	30,441	-	16,406
December 31, 2019							
Derivatives	971	366	605	-	-	-	971
Non-current financial assets	96	-	-	96	-	96	-
Total assets	1,067	366	605	96	-	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 43,947m (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 163m, adjusted EBITDA to SEK 6m and adjusted EBITA to SEK -3m.

If the acquisition had been consolidated as of January 1, 2020, the anticipated sales would have amounted to SEK 272m, adjusted EBITDA to SEK 15m and adjusted EBITA to SEK 3m.

Purchase price allocation, ABIGO Medical AB		Preliminary
SEKm		
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
Net identifiable assets and liabilities		367
Goodwill		532
Consideration not transferred, recognized as liability		-225
Consideration paid		674
Consideration paid		-674
Cash and cash equivalents in acquired operations		47
Effect on the Group's cash and cash equivalents (Consolidated cash flow statement)		-627
Acquired net debt excluding cash and cash equivalents		-53
Acquisition of operations including net debt taken over (Consolidated operating cash flow statement)		-680

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 71m.

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	2012	1912
Total assets	154,645	162,295
-Financial assets	-9,530	-6,988
-Non-current non-interest bearing liabilities	-6,700	-7,269
-Current non-interest bearing liabilities	-32,385	-34,297
Capital employed	106,030	113,741

SEKm	2020:4	2020:3	2020:2	2020:1	2019:4
Personal Care	40,505	43,268	44,150	45,684	44,268
Consumer Tissue	45,283	46,464	45,524	48,486	47,345
Professional Hygiene	20,915	22,221	23,051	24,747	22,996
Other	-673	-322	-327	-354	-868
Capital employed	106,030	111,631	112,398	118,563	113,741

Working capital

SEKm	2012	1912
Inventories	16,383	15,764
Trade receivables	17,825	19,864
Other current receivables	2,173	2,113
Trade payables	-14,791	-15,802
Other current liabilities	-14,545	-14,998
Other	101	-159
Working capital	7,146	6,782

Net debt

SEKm	2012	1912
Surplus in funded pension plans	2,817	2,841
Non-current financial assets	738	694
Current financial assets	993	525
Cash and cash equivalents	4,982	2,928
Financial assets	9,530	6,988
Non-current financial liabilities	38,202	43,079
Provisions for pensions	5,328	5,866
Current financial liabilities	8,688	8,983
Financial liabilities	52,218	57,928
Net debt	42,688	50,940

EBITDA

SEKm	2012	1912	2020:4	2019:4
Operating profit	16,758	14,349	4,191	4,538
-Amortization of acquisition-related intangible assets	809	778	199	202
-Depreciation/amortization	5,618	5,815	1,414	1,499
-Depreciation right-of-use asset	922	884	222	224
-Impairment	125	79	54	75
-Items affecting comparability - impairment net	197	-27	11	-17
EBITDA	24,429	21,878	6,091	6,521
-Items affecting comparability excluding depreciation/amortization and impairment	-138	740	-9	19
Adjusted EBITDA	24,291	22,618	6,082	6,540

EBITA

SEKm	2012	1912	2020:4	2019:4
Operating profit	16,758	14,349	4,191	4,538
-Amortization of acquisition-related intangible assets	809	778	199	202
-Operating profit before amortization of acquisition-related intangible assets/EBITA	17,567	15,127	4,390	4,740
EBITA margin (%)	14.4	11.7	14.2	14.1
-Items affecting comparability - cost of goods sold	181	243	-22	11
-Items affecting comparability - sales, general and administration	-122	470	24	-9
Adjusted EBITA	17,626	15,840	4,392	4,742
Adjusted EBITA margin (%)	14.5	12.3	14.2	14.1

Operating cash flow

SEKm	2012	1912	2020:4	2019:4
Personal Care				
Operating cash surplus	9,089	8,785	2,374	2,285
Change in working capital	236	401	552	161
Investment in non-current assets, net	-1,658	-1,866	-632	-718
Restructuring costs, etc.	-101	-644	-146	-58
Operating cash flow before investments in operating assets through leases	7,566	6,676	2,148	1,670
Investment in operating assets through leases	-81	-181	-15	-27
Operating cash flow	7,485	6,495	2,133	1,643
Consumer Tissue				
Operating cash surplus	10,817	8,107	2,628	2,557
Change in working capital	-548	-553	406	187
Investment in non-current assets, net	-3,191	-2,239	-1,337	-734
Restructuring costs, etc.	-418	-251	-182	-103
Operating cash flow before investments in operating assets through leases	6,660	5,064	1,515	1,907
Investment in operating assets through leases	-205	-194	-97	-50
Operating cash flow	6,455	4,870	1,418	1,857
Professional Hygiene				
Operating cash surplus	5,479	6,589	1,356	1,966
Change in working capital	-360	438	21	261
Investment in non-current assets, net	-1,135	-1,402	-335	-410
Restructuring costs, etc.	-677	-603	-190	-153
Operating cash flow before investments in operating assets through leases	3,307	5,022	852	1,664
Investment in operating assets through leases	-124	-84	-83	-41
Operating cash flow	3,183	4,938	769	1,623

Organic net sales

SEKm	2012	2020:4
Personal Care		
Organic net sales	-19	276
Exchange rate effect ¹	-2,248	-1,104
Acquisition/Divestments	22	63
Recognized change	-2,245	-765
Consumer Tissue		
Organic net sales	2,060	743
Exchange rate effect ¹	-1,743	-942
Acquisition/Divestments	0	0
Recognized change	317	-199
Professional Hygiene		
Organic net sales	-4,501	-1,205
Exchange rate effect ¹	-812	-569
Acquisition/Divestments	0	0
Recognized change	-5,313	-1,774
Essity		
Organic net sales	-2,439	-174
Exchange rate effect ¹	-4,806	-2,618
Acquisition/Divestments	22	63
Recognized change	-7,223	-2,729

¹Consists only of currency translation effects

6 Supplementary information

Essity had sales in 150 countries and approximately 46,000 employees in 2020.

Net sales 2020 per category

Personal Care	38%
of which	
Incontinence Products	17%
Medical Solutions	7%
Baby Care	7%
Feminine Care	7%
Consumer Tissue	41%
Professional Hygiene	21%

Net sales 2020 per region

Europe	56%
Asia	17%
Latin America	13%
North America	12%
Other	2%

Net sales 2020 per distribution channel

Retail	61%
Business-to-business	21%
Healthcare sector	18%

Gender equality

Percentage/Number of women, Board members	50% / 6 (12)
Percentage/Number of women, Executive Management Team	25% / 3 (12)

Health and safety

Essity's target is to decrease the accident frequency rate by 50% in the 2014–2020 period. The accident frequency rate declined by 56% compared with the base year of 2014, which means that the target was achieved.

	2020
Lost Time Accidents, LTA	137
Accident Frequency Rate, FR (LTA/1,000,000 WH)	2.7

Science Based Targets

Essity's targets to reduce greenhouse gas emissions were approved by the Science Based Targets initiative in 2018. In terms of energy consumption within the company and purchased electricity (Scope 1 and 2), Essity has undertaken to reduce greenhouse gas emission by 25% by 2030 with 2016 as the baseline. The outcome for 2020 was –11% for Scope 1 and 2. Essity has, moreover, undertaken to reduce greenhouse gas emissions from the most important purchased raw materials, transport, waste arising from operations, and end-of-life treatment of sold products (Scope 3) by 18% by 2030 with 2016 as the baseline. The outcome for 2019 was –4% for Scope 3. Emissions are calculated using data from the company's value chain and Essity therefore presents data with a delay of one year. The targets and outcomes apply to wholly owned companies.

	2020
Scope 1, CO ₂ e, ktons	1,366
Scope 2, CO ₂ e, ktons	1,285
	2019
Scope 3, CO ₂ e, ktons	3,262