Our Global Business

AVEVA is a global leader in industrial software, driving digital transformation and sustainability.

Our software connects information, artificial intelligence (AI) and cloud with human insight, providing the rich information and decision support that teams need to unify, visualize and analyze their data, drive efficiency and accelerate sustainable performance. Our software inspires our customers to transform the environmental and social impacts of their business.

With solutions that span engineering and operations, AVEVA is working with our customers to increase energy efficiency, minimize noxious emissions and optimize the effective use of valuable natural resources across eight industry verticals.

From water and energy, to food and infrastructure, we enable some of the world's most critical industries to leverage the capabilities of our software, to drive engineering efficiency and operational agility and transform opportunity into sustainable business growth.

FY21 Company Snapshot

20,000 customers across 8 main industries

Revenue £1,196m*

10 Research and Development (R&D) Centers

6,500 Employees

20+ Alliance Partners

4,300 System Integrator Partners

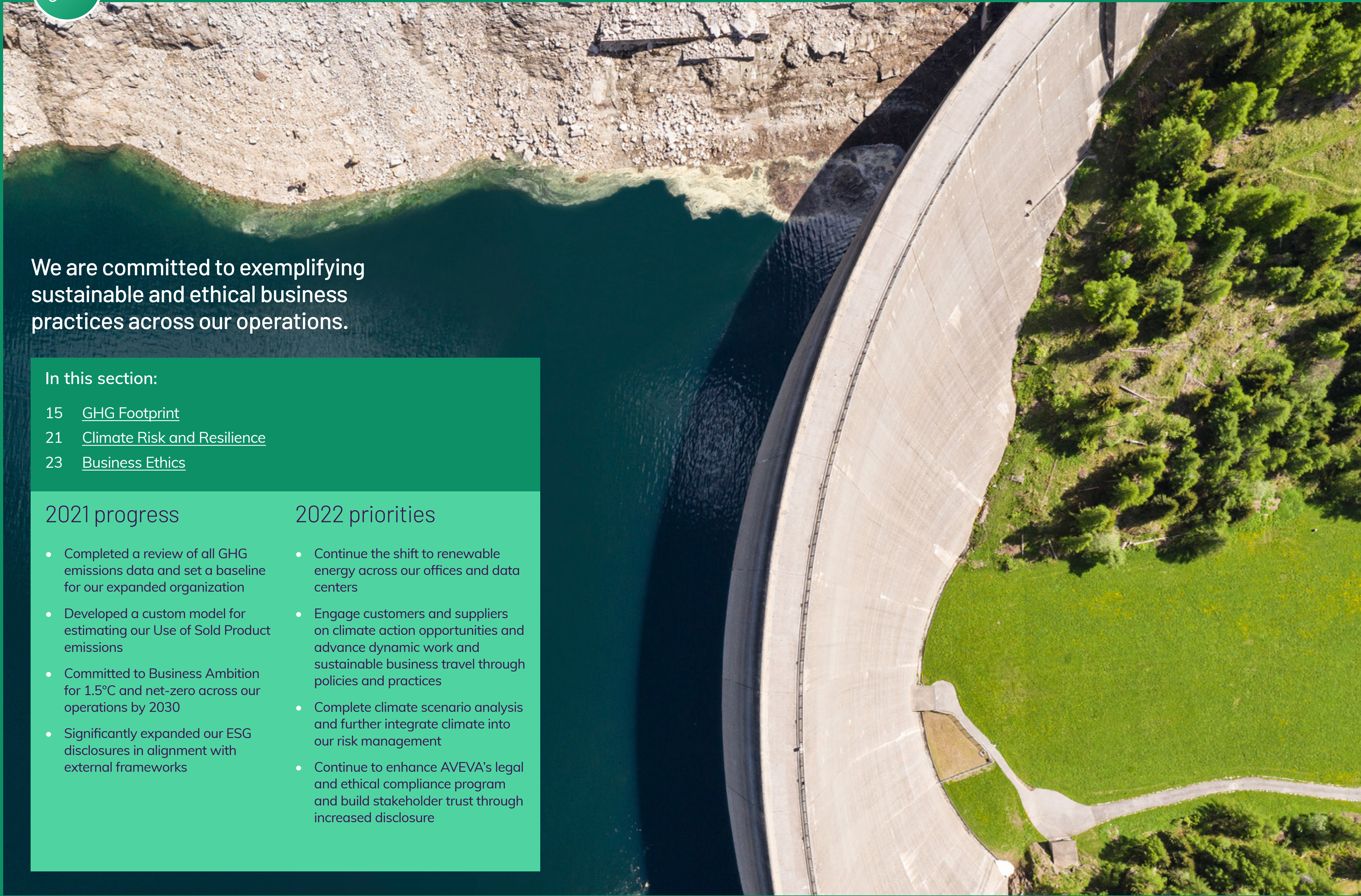
120+ Sales Partners

14% of Revenue Reinvested in R&D

250+ Tech Partners

85% Projects include Next-Gen tech

* Includes 12 month revenue for AVEVA and OSIsoft.



We are committed to exemplifying sustainable and ethical business practices across our operations.

In this section:

2021 progress

- Completed a review of all GHG emissions data and set a baseline for our expanded organization
- Developed a custom model for estimating our Use of Sold Product emissions
- Committed to Business Ambition for 1.5°C and net-zero across our operations by 2030
- Significantly expanded our ESG disclosures in alignment with external frameworks

2022 priorities

- Continue the shift to renewable energy across our offices and data centers
- Engage customers and suppliers on climate action opportunities and advance dynamic work and sustainable business travel through policies and practices
- Complete climate scenario analysis and further integrate climate into our risk management
- Continue to enhance AVEVA's legal and ethical compliance program and build stakeholder trust through increased disclosure

Amplifying Our Employee Voices

Empowering Our People

Our employee groups: BLACK Voices@AVEVA, Pride@AVEVA, Salute@AVEVA (recognizing former service personnel), Wellbeing@AVEVA and Women@AVEVA – and our regional networks, play a vital role in raising awareness on common areas of interest, facilitating dialogue, providing feedback and connections so that all employees have a clear sense of belonging and purpose. These networks have enabled us to have open and candid DEI conversations, both at a corporate level and among colleagues, and will continue to have a voice as we build a truly equitable workplace.

In 2021 AVEVA held its first month-long employee-focused Pride event with a number of employee-led engagement activities and a large emphasis on the importance of allyship and amplifying employees' voices. We hope to expand these kinds of programs, so that all networks are engaged in educational recognition activities around key milestone events throughout the year.

Feedback From Our Employees

"I applaud that we have taken the critical first steps in ensuring we are on the right path: we recognize that DEI is an individual mindset and not something we 'check off the box'. This has encouraged employees from all over the organization to join our DEI regional networks and participate in our many employee resource groups. While our DEI strategy is being led and sponsored by our CEO, getting everyone involved truly excites me as I foresee a more engaged community in the workplace of the future!"

"I applaud that we have taken the critical first steps in ensuring we are on the right path."

Monette Viloria Bulanhagui
Manager, Presales Engineering
(Singapore)

"As part of the DE&I EMEA team, I am extremely excited to help kickstart DE&I within our region. The challenge to take on and be a part of this journey is hugely appealing to me. My core role is managing the inside sales function for the EMEA region. I want to expand my team further this year and will be looking to create a healthy mix that covers Gender, Race, Faith and Ethnicity, with team members from different backgrounds. By making a start, I want to help the region in driving diversity throughout our whole team".

"I want to expand my team further this year and will be looking to create a healthy mix that covers Gender, Race, Faith and Ethnicity…"

Yasser Khan
Inside Sales Manager
(UK)

Putting Our DEI Plan Into Action

In 2021 we began work to advance all areas of the DEI plan. Some actions to date include:

- introducing our first 'Annual Impact Fund for DEI' to empower and support all employee groups and regional networks
- developing a five year action plan on Disability
- reviewing our talent acquisition in a sample of countries to ensure best DEI practice
- introducing DEI coaching for the ELT
- publishing our first Ethnicity Pay Gap Report, and
- establishing external benchmarks (e.g. participating in the Financial Time's European Diversity Leaders ranking).

Our Gender Equality Goals Explained

Measuring What Matters

We are establishing goals and targets for all five focus areas – women; race and ethnicity; faith, religion and belief; as well as disability and sexual orientation. We understand that progress towards meeting our goals and targets requires advancing all areas in our plan. Where needed, we are commissioning external expertise to support our DEI plan, for example, on DEI coaching for our ELT and on disability. Our new People Committee will actively review each leadership hire or promotion, to ensure a diverse candidate group.

> "We will achieve these goals through a range of interventions laid out in our DEI plan."

Caoimhe Keogan,
Chief People Officer AVEVA

In addition to publishing our first combined Gender and Ethnicity Pay Gap report this year, we are evaluating targets for leadership ethnic diversity within countries, and across our global locations.

Advancing Women In Technology

Despite overall representation of women working in the technology sector increasing in recent years, AVEVA recognizes that the pandemic has hindered gender parity progress of industries as a whole. In FY21, women accounted for 26.5% of our workforce across our expanded organization and 32% of all new hires, globally; women held 24% of our people manager roles and 18% of our leadership roles. At 31st March 2021, we also had 19.2% of Science, Technology, Engineering and Math (STEM) roles being held by women. We define STEM roles as people in the technical departments: R&D, Professional Services, IT, Customer Support, Technical Sales. We remain committed to advancing and accelerating our own gender representation across all roles at AVEVA. This is reflected in our 30/40/50 2030 gender equality target.

AVEVA is also committed to achieving a <1% pay parity gap – this is the average difference in pay for the same job at the same level held by two diverse candidates. Please note, this is different to simply the pay gap, a measure that applies across all jobs and levels within the organization. While different measures, we see both achieving pay parity and reducing the pay gap as important. More information on our current gender pay gap is available on our website and we currently have an enterprise-wide gender pay parity study underway, which we expect to complete before the end of the fiscal year.

Our 2030 Gender Equality Pledges

40%
Women managers by 2030

50%
Women new starters by 2030

30%
Women in leadership by 2030

<1%
Gender pay parity gap by 2030

Contents

The Board of Directors' Report and financial statements

The Annual and Sustainability Report 2018 for Essity Aktiebolag (publ) has been submitted by the Board of Directors and describes the company's overall objectives and strategies and earnings for the year. The aim is to describe the business from an economic, social and environmental perspective. The Board of Directors' Report and financial statements are presented on pages 6–8 and 20–126 and include the auditor's report. Pages 33–45 and 114–121 encompass Essity's statutory sustainability report according to the requirements stated in the Annual Accounts Act. The company's business model can be found on page 11. The report was prepared in accordance with GRI Reporting Standards: Core. It also constitutes Essity's Communication on Progress (COP) to the UN Global Compact.

This is Essity

Essity is a leading global hygiene and health company. We improve people's well-being through our products and services.

Sales are conducted in approximately 150 countries under the globally leading brands TENA and Tork, and other strong brands, such as JOBST, Leukoplast, Libero, Libresse, Lotus, Nosotras, Saba, Tempo, Vinda and Zewa.

Essity is listed on Nasdaq Stockholm.

Net sales 2018
118,500
SEKm

Sales in approximately
150
countries

Adjusted EBITA[1] 2018
12,935
SEKm

Employees, approximately
47,000
around the world

Essity's market capitalization
153
SEKbn
at December 31, 2018

[1] Excluding items affecting comparability.

Our business areas

Personal Care

Essity is a leading global player in personal care. Our offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. In the market for incontinence products, Essity is the global market leader and the Group holds strong market positions in baby care, feminine care and medical solutions. Read more on pages 22–23.

Consumer Tissue

Essity is the world's second largest supplier of consumer tissue. Our offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Read more on pages 24–25.

Professional Hygiene

Essity is the world's largest supplier of products and services in the market for professional hygiene. Our offering comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap and dispensers. Read more on pages 26–27.

Our strengths

Leading market positions in an attractive and growing hygiene and health market

Essity is a leading global hygiene and health company. We have sales in approximately 150 countries and hold the number one or number two position within at least one product category in approximately 90 countries.

Shifts in global demographics such as population growth and increased longevity as well as higher disposable income point to continued good growth for hygiene and health products. An aging population and increased prevalence of chronic diseases, such as obesity and diabetes, and greater life expectancy of people with chronic diseases, are expected to increase demand for incontinence products and medical solutions. Market growth for hygiene and health products is also positively impacted by increased awareness of the importance of hygiene to avoid diseases and improve health.

Essity holds a strong position in several key emerging markets, such as China, Latin America and Russia. We are the majority shareholder in Vinda, one of China's largest hygiene companies. Emerging markets accounted for 35% of Essity's net sales in 2018. The growth potential for hygiene and health products is high in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, higher disposable income, the development of the retail trade and improved access to health care are resulting in increased demand for hygiene and health products.

Strong brands and successful innovations

Essity is the global market leader in incontinence products with the TENA brand and in Professional Hygiene with the Tork brand. We also have strong brands and market positions in the markets for baby care, feminine care, medical solutions and consumer tissue. Essity's offerings simplify everyday life for hundreds of millions of people worldwide every day. In 2018, we launched important innovations that offer greater value for customers and consumers while also reducing resource consumption. As an important element in our innovation work, we develop market-leading digital products and services in hygiene and health.

Focus on efficiency improvements and cost savings

Essity continuously works to improve efficiency in order to strengthen competitiveness, cut costs and improve earnings. By streamlining the supply chain and leveraging digitalization and economies of scale, a more efficient value chain is achieved. Improved capital efficiency, lower costs and strengthened cash flow are made possible through efficiency improvements and savings measures, as well as the optimization of capital employed.

To improve profitability and strengthen the company's long-term cost efficiency, Essity introduced a Group-wide cost-savings program in September 2018. The program is in addition to the efficiency initiatives already in progress in the company. Changes were also made to the company's organizational structure and Executive Management Team.

Sustainable business model with profitable growth and strong cash flow

Essity's sustainable business model creates value for both people and nature. Essity's objective is to develop products and services that contribute toward a sustainable and circular society where we strive to reduce resource consumption and to offer efficient recycling or composting of our products. In 2018, Essity was included in Dow Jones Sustainability Index and named industry leader in the Household Products sector.

Through continuous work to grow profitable market positions, improve or exit underperforming positions, and successful innovations and efficiency improvements, Essity has demonstrated profitable growth and strong cash flow. Between 2014 and 2018, Essity's net sales increased 34.7%. Organic net sales increased 13.3%, corresponding to an annual increase of 3.2%. During the same period, adjusted EBITA[1)] increased 36% and the adjusted EBITA margin[1)] increased from 10.8% to 10.9%. The company has generated strong cash flow and in 2018, operating cash flow amounted to SEK 12,324m.

1) Excluding items affecting comparability.

2018 at a glance

Key events

- **Successful innovations**
  In all product categories innovations were launched that strengthened Essity's customer and consumer offering.
- **Essity industry leader in Dow Jones Sustainability Index**
  Essity qualified for inclusion in the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index, and was named industry leader in the Household Products sector.
- **Restructuring measures in tissue production**
  To further improve cost and capital efficiency in Consumer Tissue and Professional Hygiene, decisions were taken on restructuring measures in tissue production in Europe, North America and Latin America.
- **Group-wide cost-savings program**
  To improve profitability and strengthen long-term cost efficiency, a Group-wide cost-savings program was introduced. The program is expected to generate annual cost savings of approximately SEK 900m, with full effect at the end of 2019.
- **New organization**
  To strengthen competitiveness and increase efficiency, changes were made to the organizational structure and Executive Management Team.

Key figures

2018 compared with 2017

- Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.6%, of which volume accounted for 0.5% and price/mix for 2.1%. Organic net sales increased 0.9% in mature markets and increased 5.9% in emerging markets. Emerging markets accounted for 35% of net sales.
- Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) declined 4% (11% excluding currency translation effects and acquisitions) to SEK 12,935m (13,405). Higher prices, better mix, higher volumes, cost savings and the acquisition of BSN medical had a positive impact on earnings.

Net sales
118,500
SEKm
+8.5%

Adjusted EBITA[2]
12,935
SEKm
–4%

Operating cash flow
12,324
SEKm

Earnings per share
11.23
SEK

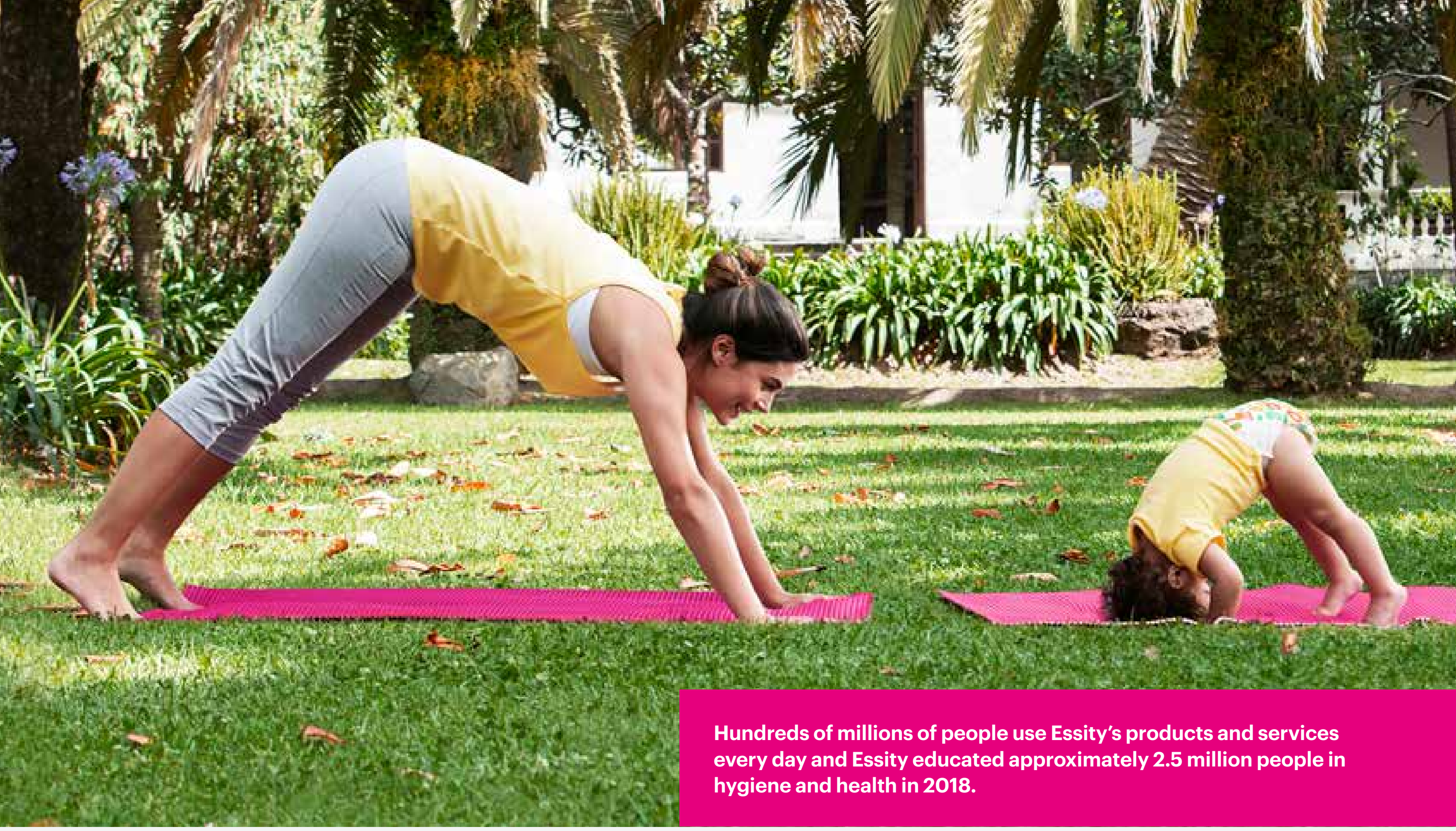
Organic net sales[1]
+3.1%
excl. lower sales of mother reels
+2.6%
incl. lower sales of mother reels

Adjusted EBITA margin[2]
10.9%
–1.4 percentage point

Adjusted return on capital employed[2]
12.0%

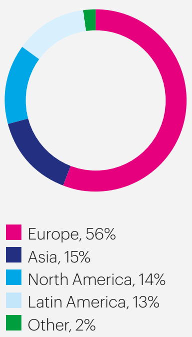
Proposed dividend per share[3]
5.75
SEK

[1] Net sales excluding exchange rate effects, acquisitions and divestments.
[2] Excluding items affecting comparability.
[3] Board of Directors proposal.

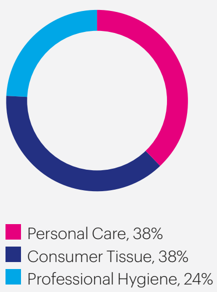


Hundreds of millions of people use Essity's products and services every day and Essity educated approximately 2.5 million people in hygiene and health in 2018.

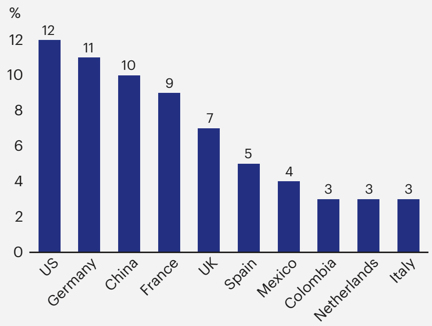
Net sales by region



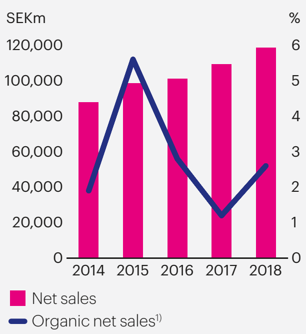
Net sales by business area



The Group's largest markets, % of net sales

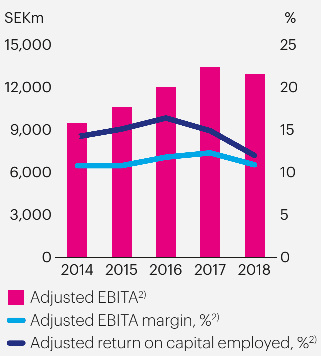


Net sales and organic net sales[1)]



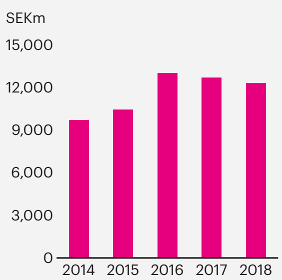
[1)] Excluding exchange rate effects, acquisitions and divestments.

Adjusted EBITA[2)], adjusted EBITA margin[2)] and adjusted return on capital employed[2)]



[2)] Excluding items affecting comparability.

Operating cash flow



Progress in many areas during a challenging year

In 2018, we strengthened our brands through successful innovations, improved our product mix, implemented price increases and intensified efficiency improvements and restructuring measures. We took actions in all parts of the business to increase profitability and offset the negative impact on earnings of the significantly higher raw material and energy costs. The work to contribute to a sustainable and circular society was rewarded. We qualified for inclusion in the Dow Jones Sustainability Index and were named industry leader in the Household Products sector. External factors made 2018 a challenging year, but with a strong customer focus and hard work we strengthened the business for the future.

Earnings trend

In 2018, organic net sales increased 2.6%. In emerging markets, which accounted for 35% of net sales, the increase was 5.9%. The adjusted EBITA margin[1] declined 1.4 percentage points to 10.9%. Price increases, improved product mix, volume growth and cost savings enabled us to offset a large share of the higher raw material and energy costs, which had a negative impact on the margin of 4.2 percentage points.

Measures to increase profitability

We continued to invest in our strong brands and improved our product mix through innovations. During the year, we implemented price increases in all business areas and further price increases are anticipated in 2019. We intensified our efficiency improvements and restructuring of the business and achieved SEK 1,040m in cost savings during the year. These cost savings were primarily a result of measures as part of Tissue Roadmap, operational efficiency improvements, material rationalizations and sourcing savings. To improve profitability and strengthen long-term cost efficiency, a Group-wide cost-savings program was launched in 2018. We also made changes to the company's organizational structure and Executive Management Team.

Innovation for increased customer and consumer value

With a focus on our customers and consumers, we launched successful innovations in all product categories, which strengthened our brands and market positions. Within Incontinence Products, with our globally leading TENA brand we, for example, improved our offering with TENA Complete™, a high-quality and cost-efficient incontinence product that represents an improvement for both users and caregivers. In the retail trade, we launched TENA Men and lights by TENA with higher absorption, better fit and discretion. Within Medical Solutions, we launched Cutimed® Siltec® Sorbact®, a dressing for chronic wounds. With our globally leading Tork brand, we launched in Professional Hygiene our new Tork Reflex® paper dispenser. Within Consumer Tissue, we launched Lotus Moltonel Sans Tube, our first coreless toilet paper.

"Poor hygiene and sanitation constitute a barrier for the health, livelihood, well-being, and development of millions of people. Our vision is: Dedicated to improving well-being through leading hygiene and health solutions."

Digitalization in all parts of the business

For Essity, digitalization offers many opportunities to optimize and develop all parts of our value chain. In 2018, we robotized and automated processes to improve product quality and efficiency in production, administration and logistics. We are working to develop digital solutions that improve our offering to customers and consumers. Our online sales increased in 2018. Together with the retail trade and e-commerce, we are developing and strengthening our presence in this channel. The target is to have at least the same market share online as offline in all markets and for all product categories.

With a vision of improving well-being

Poor hygiene and sanitation constitute a barrier for the health, livelihood, well-being, and development of millions of people. Our vision is: Dedicated to improving well-being through leading hygiene and health solutions. In 2018, hundreds of millions of people across the world used our products every day and we educated approximately 2.5 million people in hygiene and health during the year. Knowledge is the key to improved hygiene and health, at the same time as this creates business opportunities for us. Through our business model, we also contribute toward the UN Sustainable Development Goals (SDGs) and we were the convening partner for the United Nations Foundation Global Dialogue concerning these goals. Essity supports the UN Global Compact.

Sustainable development

We develop products and services that contribute toward a sustainable and circular society in order to be relevant both today and in the future. One important aspect of this is to offer products and services that help customers and consumers reduce their environmental impact. We endeavor to reduce resource consumption and enable efficient recycling of our products. To achieve this, we need innovation and collaboration. Our Tork PaperCircle™ innovation, the world's first recycling service for paper hand towels, is one example. In 2018, our new targets to reduce greenhouse gas emissions were approved by the Science Based Targets initiative. This means that our climate commitment supports the Paris Agreement's target to keep global warming below 2 degrees Celsius.

[1] Excluding items affecting comparability.

The Essity share

Essity shares are quoted and traded on Nasdaq Stockholm. Essity's market capitalization was SEK 153bn at December 31, 2018.

Share price performance

In 2018, the price of Essity's B share declined 7%. During the same period, the OMX Stockholm 30 Index fell 11% and MSCI Household Products Index fell 6%. The closing price of Essity's B share at year-end was SEK 217.60. The highest closing price for Essity's B share during the year was SEK 240.50, which was noted on January 26, 2018. The lowest closing price was SEK 204.70 on October 29, 2018.

The total shareholder return for Essity's B share for the year was –4%. The total shareholder return for the OMX Stockholm 30 Index was –7% and for MSCI Household Products Index –3%.

Dividend and dividend policy

Essity aims to provide long-term stable and rising dividends to its shareholders. When cash flow from current operations exceeds what the company can invest in profitable expansion over the long term, and under the condition that the capital structure target is met, the surplus shall be distributed to the shareholders.

The Board of Directors proposes a dividend of SEK 5.75 per share for the 2018 fiscal year. The 2018 dividend represents a dividend yield of 2.6%, based on Essity's share price at the end of the year.

Index

On Nasdaq Stockholm, Essity is included in the OMX Stockholm 30 Index, OMX Nordic 40 Index and in the Personal & Household Goods sector within Consumer Goods. In addition to indexes directly linked to Nasdaq Stockholm, Essity is included in other indexes, such as the FTSE Eurofirst Index and FTSE All World Index.

Within MSCI, Essity is included in Household Products Index within Consumer Staples. Essity is also represented in sustainability indexes including the Dow Jones Sustainability Index and the FTSE4Good Global Index.

Shareholders structure

46% of the share capital is owned by investors registered in Sweden and 54% by foreign investors. The US and the UK account for the highest percentage of shareholders registered outside Sweden. Of Essity's shareholders, at least 22% perform sustainability assessments.

Beta coefficient

The beta coefficient for Essity's B share was 0.55 in 2018. A beta coefficient of less than 1 indicates that the share is less sensitive to market fluctuations than the average.

Liquidity

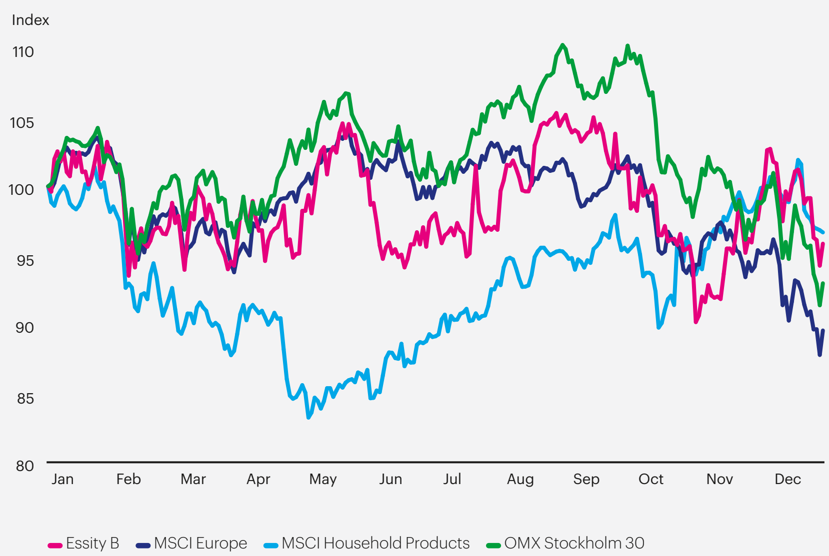
In 2018, the volume of Essity shares traded on Nasdaq Stockholm was about 341 million, corresponding to a value of approximately SEK 77bn. Average daily trading for Essity on Nasdaq Stockholm amounted to approximately 1.4 million shares, corresponding to a value of approximately SEK 307m.

Market share

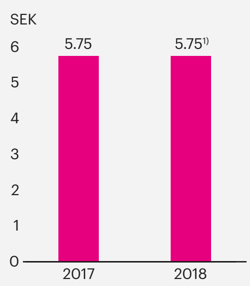
%	2018	2017
Nasdaq Stockholm	75%	85%
CBOE	19%	12%
Turquoise	3%	2%
Other	3%	1%
Total	**100%**	**100%**

Source: Nasdaq Stockholm, Essity

Total shareholder return 2018

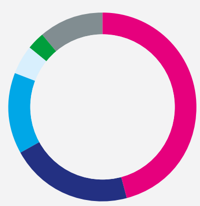


Dividend per share, SEK



¹⁾ Dividend proposed by the Board of Directors.

Ownership by country



Sweden, 46%
US, 21%
UK, 14%
Luxembourg, 5%
Finland, 3%
Other countries, 11%

Total foreign ownership, 54%

Source: Euroclear, December 31, 2018

Essity's largest shareholders

At December 31, 2018, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights:

Shareholders	Votes (%)	Capital (%)
AB Industrivärden	29.9	9.5
Norges Bank Investment Management	8.2	4.7
MFS Investment Management	2.7	5.0
AMF Insurance and Funds	2.5	3.3
Swedbank Robur Funds	2.4	4.3
SHB Oktogonen Foundation	2.4	0.4
Skandia	1.6	0.4
First Swedish Pension Insurance Fund	1.0	1.9
SHB Pension Fund	1.0	0.2
Nordea Investment Funds	1.0	1.7
Other owners	47.3	68.6
Total	**100.0**	**100.0**

Essity Aktiebolag (publ) holds no treasury shares.
Source: Euroclear, December 31, 2018

Shareholders structure

Holding	No. of shareholders	No. of shares	Capital (%)	Votes (%)
1–1,000	71,666	18,706,485	2.7	3.1
1,001–10,000	14,522	39,370,938	5.6	6.4
10,001–20,000	685	9,777,799	1.4	1.4
20,001–	975	634,487,267	90.3	89.1
Total	**87,848**	**702,342,489**	**100.0**	**100.0**

Source: Euroclear, December 31, 2018

Share distribution

	Class A	Class B	Total
Number of registered shares	63,992,771	638,349,718	702,342,489

In 2018, 147,667 Class A shares were converted to Class B shares at the request of shareholders.
The total number of votes in the company subsequently amounted to 1,278,277,428.
Source: Euroclear, December 31, 2018

Ticker names

Nasdaq Stockholm	ESSITY A, ESSITY B
Bloomberg	ESSITYA:SS, ESSITYB:SS
REUTERS	ESSITYa.ST, ESSITYb.ST

Data per share

All earnings figures include items affecting comparability unless otherwise indicated.

SEK per share unless otherwise indicated	2018	2017
Earnings per share:		
Earnings per share:	11.23	11.56
Adjusted earnings per share[1]	13.32	13.09
Market price for B share:		
Average price during the year	225.72	233.87
Closing price, December 31	217.60	233.00
Cash flow from current operations[2]	12.51	12.45
Cash flow from operating activities	18.74	18.12
Dividend	5.75[3]	5.75
Dividend yield, %	2.6	2.5
P/E ratio[4]	19	20
Adjusted P/E ratio[5]	16	18
Price/EBITA[6]	18	17
Price/EBITA, excluding items affecting comparability[6]	16	16
Beta coefficient[7]	0.55	0.58
Pay-out ratio (before dilution), %	51	50
Equity, after dilution effects	78	71
Number of registered shares, December 31 (millions)	702.3	702.3

1) Excluding items affecting comparability and amortization of acquisition-related intangible assets.
2) See definitions of key figures in Note A2, pages 64–69.
3) Board of Directors proposal.
4) Share price at year-end divided by earnings per share.
5) Share price at year-end divided by adjusted earnings per share.
6) Market capitalization plus net debt plus non-controlling interests divided by EBITA (EBITA = Operating profit before amortization of acquisition-related intangible assets).
7) Share price volatility compared with the entire stock exchange.

Essity is included in the following sustainability indexes

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

Essity was named industry leader in the Dow Jones Sustainability Index

FTSE4Good

CDP
DRIVING SUSTAINABLE ECONOMIES

Earnings per share, 2018

SEK 11.23

Proposed dividend per share, 2018[1]

SEK 5.75

1) Dividend proposed by the Board of Directors.

Share capital development

The table below shows the development of the company's share capital since 2017.

Year	Event	Change in number of Class A shares	Change in number of Class B shares	Total number of Class A shares	Total number of Class B shares	Total number of shares	Change in share capital, SEK	Total share capital, SEK	Quotient value, SEK
2017	Bonus issue[1]	64,589,523	637,747,966	64,594,523	637,747,966	702,342,489	2,349,866,980	2,350,366,980	3.35
2017	Conversion	–454,085	454,085	64,140,438	638,202,051	702,342,489	–	2,350,366,980	3.35
2018	Conversion	–147,667	147,667	63,992,771	638,349,718	702,342,489	–	2,350,366,980	3.35

1) At the Annual General Meeting, held on April 5, 2017, shareholders resolved on a bonus issue. The purpose of the bonus issue was to increase the share capital and number of shares so they would correspond to the number of shares in SCA ahead of SCA's distribution of Essity.

Essity's strategic framework

Essity's vision is: Dedicated to improving well-being through leading hygiene and health solutions. Our strategy is designed to generate value for all of the company's stakeholders with a focus on profitable growth. Operations are based on a sustainable business model, focused on value creation for customers and consumers. Essity's vision has been broken down into four objectives and four strategies with clear connections to stakeholder groups, such as shareholders, customers and consumers, society and employees.

Vision and mission

VISION
Dedicated to improving well-being through leading hygiene and health solutions

MISSION
To sustainably develop, produce, market and sell value-added products and services within hygiene and health

Objectives

- Generate increased **shareholder** value through profitable growth
- Enable more **people** every day to enjoy a fuller life
- Contribute to a sustainable and circular **society**
- Enable our **employees** to realize their full potential, as part of one winning team

Read more on pages **12–15**

Strategies

- Win in chosen **geographies** and **categories**
- Focus on **customers** and **consumers**
- **Innovate** bigger **brands**
- Drive **efficiency**

Read more on pages **16–19**

Essity's business model

Our customers and consumers are at the center of Essity's business model. We begin by building knowledge and understanding of their daily needs and challenges. This unique insight allows us to develop products and services to help simplify everyday life for hundreds of millions of people worldwide.

Approximately 47,000 employees around the world.

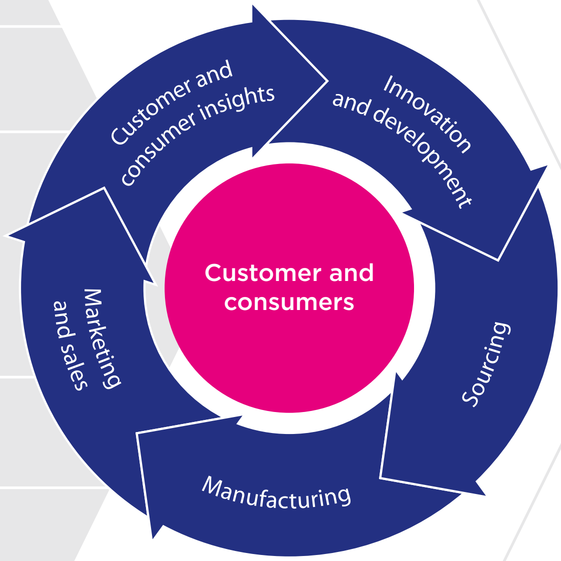
Approximately 90 production facilities.

In 2018, Essity purchased raw materials and consumables for approximately SEK 44bn. Essity's main raw materials are pulp, recovered fiber and oil-based raw materials. Energy costs totaled approximately SEK 5bn.

Equity amounted to approximately SEK 55bn.

Net debt amounted to approximately SEK 54bn.

Essity had a solid investment grade rating.



Leading hygiene and health solutions

Personal Care

Consumer Tissue

Professional Hygiene

Innovations and product launches are a top priority when it comes to delivering increased customer and consumer value and strengthening Essity's brands and market positions. To contribute to a sustainable and circular society, there is a need for new business solutions and innovations that close the loop.

Input goods, such as pulp, recovered fiber and oil-based raw materials are sourced through a centralized purchasing function to achieve economies of scale and a stronger negotiating position. Essity works throughout the supply chain to guarantee responsible sourcing and we subject our suppliers to stringent demands.

Essity has approximately 90 production facilities worldwide for manufacturing Personal Care, Consumer Tissue and Professional Hygiene products. Efficiency work at our facilities is a continuous process, and includes digitalization and automation, in order to achieve sustainable, efficient, world-class production.

Essity is the global market leader in incontinence products with the TENA brand and in professional hygiene with the Tork brand. Essity also has strong brands in other product categories. Essity has sales in approximately 150 countries and a well-developed and efficient "go-to-market" model. Our products are distributed in a number of ways, from small convenience stores in rural areas to supermarkets, hospitals, healthcare centers, restaurants, pharmacies and e-commerce. In 2018, the retail trade accounted for 58% of Essity's net sales, business-to-business for 24% and the healthcare sector for 18%.

Objectives, targets and outcomes

Generate increased shareholder value through profitable growth

Essity works to generate long-term value for its shareholders and that the Essity share is to have a higher total shareholder return than competitors.

Essity focuses on profitable growth in order to increase the Group's value creation and the total shareholder return. We prioritize growth in our product categories with the highest margins and our ambition is that these will account for an increasing share of Essity's net sales. In addition to organic sales growth, Essity sees an opportunity to also grow through acquisitions. With respect to underperforming market positions, we are primarily focusing on improving profitability. To strengthen competitiveness and improve profitability, Essity is also constantly working to reduce the cost base related to cost of goods sold as well as costs for sales and administration.

Shareholder value is achieved through a positive share price trend and dividends.

Read more about the Essity share on pages 6–7.

	Target	Outcome 2018
Organic sales growth[1]	Annual organic sales growth of above 3%. **>3%**	**2.6%**
Adjusted return on capital employed[2]	Adjusted return on capital employed of above 15%. **>15%**	**12.0%**

Policy and outcomes 2018

Dividend Policy: Essity aims to provide long-term stable and rising dividends to its shareholders. When cash flow from current operations exceeds what the company can invest in profitable expansion over the long term, and under the condition that the capital structure target is met, the surplus shall be distributed to the shareholders.
The Board of Directors proposes a dividend of SEK 5.75 per share for the 2018 fiscal year.

Capital Structure Policy: Essity's target is to have an effective capital structure at the same time that the long-term access to debt financing is ensured. Cash flow in relation to net debt shall take into account the target to maintain a solid investment grade rating.
In 2018, Essity had a solid investment grade rating.

1) Net sales excluding exchange rate effects, acquisitions and divestments.
2) Excluding items affecting comparability.

Tork PeakServe®
A new paper hand towel system specifically tailored for high-traffic areas. Tork PeakServe® was launched in Europe in 2017 and in North America in 2018.

Enable more people every day to enjoy a fuller life

Essity aims to enable more people every day to enjoy a fuller life. To do so, we are working on sharing our knowledge with customers and consumers through education in hygiene and health and by pursuing a global dialogue about hygiene, health and well-being. At the same time, we are also creating business opportunities.

What makes Essity successful is the knowledge and insight about the needs of customers and consumers and the ability to transform this into innovative offerings that increase quality of life and make everyday life easier for people. Essity wants to offer customers and consumers value-added hygiene and health solutions.

We adapt our offering to local and regional market conditions to increase hygiene and health standards worldwide.

Essity's ambition is to improve well-being of 2 billion people every day by 2030.

	Target	Outcome 2018
People and nature innovations We will deliver better, safe and environmentally sound solutions to our customers. We strive to continuously improve resource efficiency and reduce our environmental impact by considering the whole life cycle for new innovations.	At least 33% of Essity's innovations will yield social and/or environmental improvements. **33%**	**59%**
Hygiene solutions We will make our knowledge about hygiene and health available to customers and consumers and ensure access to affordable, sustainable solutions to help them lead a healthy and dignified life. In markets in which we operate, we will: • Provide information and implement education programs on hygiene and health • Strive to raise hygiene and health standards		Worldwide, around 2.5 million people were reached by hygiene and health training arranged by Essity. Hundreds of millions of people used Essity's products every day. Essity held the number one or two position in at least one product category in approximately 90 countries.

Our contribution to the UN Sustainable Development Goals

Goal 3
Good health and well-being

Our contribution toward Goal 3 includes developing sustainable products and services for hygiene and health, educating consumers and care professionals, and preventing the spread of diseases and other health risks. Business value is also created by meeting societal needs. This offers more people an opportunity to work, better conditions to provide for their families and increased well-being.

Goal 5
Gender equality

Essity works to break the silence around issues such as menstruation and incontinence. We want a society where everyone can fully participate. Essity's contribution toward Goal 5 includes pursuing a global dialogue, making our knowledge about hygiene and health available to customers and consumers and ensuring access to affordable, sustainable hygiene and health solutions to contribute to a dignified life on equal terms.

Goal 6
Clean water and sanitation

Our contribution toward Goal 6 covers our work to achieve efficient water usage throughout the entire life cycle of our products and improve access to sustainable sanitation and hygiene solutions. Essity works independently as well as with partners to contribute to sustainable water use and sanitation.

Contribute to a sustainable and circular society

Essity's objective is to develop products and services for a sustainable and circular society. Circularity is a business model that involves striving to reduce resource consumption and an efficient recycling or composting of our hygiene and health products. This means we must include this in our innovation work and develop new business models that create new business opportunities for Essity.

Our ambition is that our environmental footprint will be reduced by 33% in 2030.

In December 2018, Essity's expanded climate targets for carbon emissions were approved by the Science Based Targets initiative. The initiative is a collaboration between for example CDP, the UN Global Compact and the WWF and includes a scientific method to ensure that companies' targets for the reduction of carbon emissions are aligned with the global climate target set by the Paris Agreement to keep global warming below 2 degrees Celsius. We are committed to reducing our climate impact linked to energy use and purchased electricity (Scope 1 and 2), and our indirect climate impact from material use, transportation and waste management, which includes emissions from suppliers and consumers (Scope 3).

Essity is working to promote sustainable and responsible business by choosing suppliers who share our values and comply with our Code of Conduct and Global Supplier Standard. In 2018, we strengthened our target for sourcing of fresh fiber. This means all fresh wood based fiber raw material in our products and packaging will be FSC® or PEFC™ certified.

	Target	Outcome 2018
Science-Based Targets Essity has undertaken by 2030, with 2016 as reference year, to reduce the climate impact of:		
– **Scope 1** and **Scope 2**	–25%	–5%
– **Scope 3**	–18%	The outcome will be reported as of 2019
Suppliers: We will evaluate all of our supply streams from a total risk perspective. By 2020, we will source all of our procurement spend from suppliers committed to the criteria specified in Essity's Global Supplier Standard.	100%	71%

	Target	Outcome 2018
Fiber: All fresh wood based fiber raw material in our products and packaging will be FSC® or PEFC™ certified.	100%	76%[1)]
Waste: All waste from all production units will be subject to material and energy recovery by 2030.	100%	60%
Water: By 2020, with 2014 as reference year, our plants will:		
• reduce levels of suspended solids	–10%	–19%
• reduce water usage	–10%	–3%
• reduce organic waste (BOD)	–10%	–25%

1) As of 2018, material that fulfills FSC's criteria for Controlled Wood is not included in the fiber target, which explains the decrease compared with 2017. All fiber must fulfill these criteria as a basic requirement.

Our contribution to the UN Sustainable Development Goals

Goal 12
Responsible consumption and production

Essity's contribution toward Goal 12 consists of establishing collaboration for customers and consumers within consumption and circularity. This could involve highlighting sustainability criteria in public procurements and changing behavior through the use of new business models, technology and education of customers and consumers.

Goal 13
Climate action

Essity's contribution toward Goal 13 involves improving resource efficiency in manufacturing, achieving Science-Based Targets to reduce greenhouse gas emissions and supporting relevant external initiatives and agreements.

Goal 15
Life on land

We work to promote responsible forest operations throughout our supply chain and require our suppliers to fulfill very strict criteria stipulated in our Global Supplier Standard and in our fiber policy. Essity's contribution toward Goal 15 consists of the certification of suppliers and our own production, ensuring the use of certified fiber in Essity's products and packaging and the responsible use of other input goods.

Enable our employees to realize their full potential, as part of one winning team

We offer career opportunities in a leading global hygiene and health company that is working to increase well-being in the world through leading hygiene and health solutions. Improved hygiene and health are basic conditions for a better life and play a vital role in well-being.

The health and safety of our employees is a top priority. We are striving to continuously improve the work environment to make it safe and healthy. Everyone should feel safe when they work for Essity. Managers, employees and partners receive training on a regular basis and all Essity plants have plans to improve safety at their facilities.

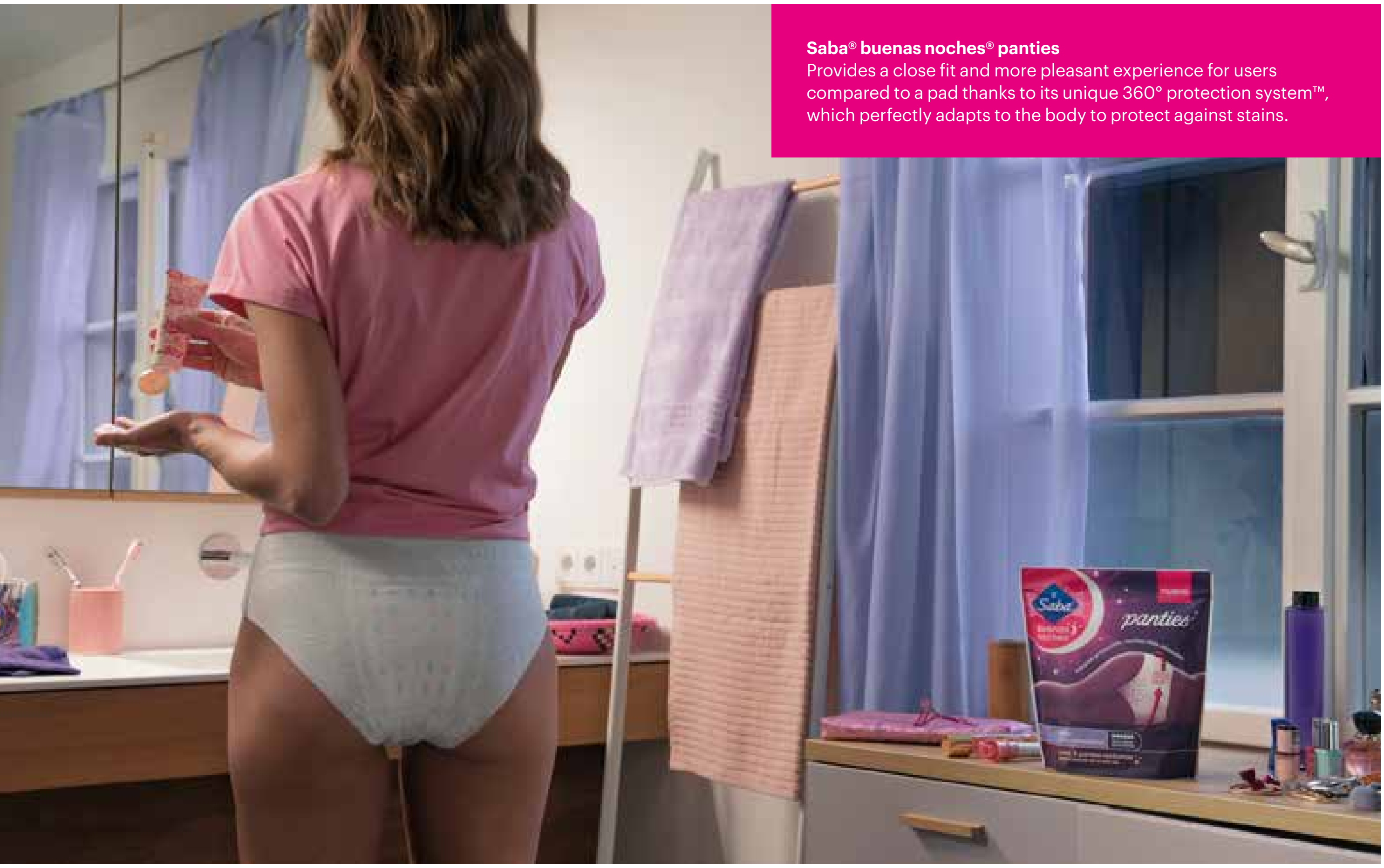
Essity's success is dependent upon motivated, competent and performance-oriented employees. Our ambition is that all employees will reach their full potential, and assume responsibility for driving their own development. To achieve the objective, we work to continuously develop our corporate culture, our leadership and to provide a number of programs and initiatives to build capabilities.

Essity offers a strong corporate culture based on our "Beliefs & Behaviors": we are committed, we care, we collaborate, and we have courage. These express, in different ways, what is required of all employees to successfully develop Essity. Our "Beliefs & Behaviors" are supplemented by Essity's Code of Conduct, which was updated in 2018. The Code of Conduct instructs employees in how we conduct our business in a responsible manner to benefit our company, society and the environment. The Code helps employees to make correct decisions in daily work.

In 2018, Essity conducted a global employee survey. This was completely digital and the response rate was 80%. The survey shows strong employee engagement with particularly high scores in areas such as collaboration, results orientation, team spirit, health and safety.

	Target	Outcome 2018
Employee Health and Safety	Our aim is zero workplace accidents, and we will decrease our accident frequency rate by 50% between 2014 and 2020. **–50%**	**–39%**
Business ethics and human rights	We will maintain compliance with our Essity Code of Conduct. All employees will receive regular training in the Code. **100%**	**90%** of new employees received training in the Code.

Strategies



Saba® buenas noches® panties
Provides a close fit and more pleasant experience for users compared to a pad thanks to its unique 360° protection system™, which perfectly adapts to the body to protect against stains.

Win in chosen geographies and categories

We aim to hold a number one or number two position in the geographies and product categories where Essity chooses to operate. We compare ourselves with the best competitors in each product category in each geographic market and aim to perform better or in line with the best competitor.

Prioritized markets

Essity has a clear priority for which geographic markets it wants to operate in, and which product categories it will offer in these markets. Sales are conducted in approximately 150 countries. In approximately 90 of these, Essity holds the number one or two position in at least one product category. Essity aims to increase the emerging markets' percentage of net sales and earnings, since these markets' potential for growth is higher because market penetration of hygiene and health products is lower than in the mature markets. We are prioritizing growth in selected emerging markets such as China, Southeast Asia, Latin America, Eastern Europe and Russia, where we already have strong market positions. In emerging markets, which accounted for 35% of net sales, organic net sales increased 5.9% in 2018.

Profitable growth

Essity creates value through profitable growth. Every product category in each market must generate a certain level of profitability if growth is to create value. In 2018, we continued work with Cure or Kill, a plan to improve profitability for underperforming market positions. We prioritize growth in product categories with the highest margins and our ambition is that these will account for an increasing share of Essity's net sales. This means we are focusing on growth in Incontinence Products, Medical Solutions, Feminine Care and Professional Hygiene while prioritizing improved margins in Consumer Tissue and Baby Care. In addition to organic growth, Essity has the ambition to grow through acquisitions.

Expanding the customer offering

To grow our product categories and strengthen market positions, we work continuously to improve and expand our customer and consumer offering. For example, Essity offers wet wipes, skincare products and soap. Expanding the customer offering is also about providing service and solutions to customers and consumers and developing digital solutions.

Focus on customers and consumers

Essity's products and services help to simplify everyday life for hundreds of millions of people. To succeed, we have to understand the needs, challenges and expectations of our customers and consumers. Customer understanding and consumer insight determine the innovations we develop and how we deliver finished products or services to the market.

Continuous customer and consumer dialogue

Important competitive advantages for Essity are our understanding, knowledge and insight into the needs and purchasing behavior of customers and consumers as well as our global expertise, strong customer relations and knowledge of local and regional market conditions. To understand the needs and expectations, we engage in a continuous dialogue with customers, consumers and patients. We study the world around us to identify trends and new needs. Our sales representatives provide us with insight about our customers and we conduct regular customer satisfaction surveys. We engage in a dialogue with consumers through focus groups and in-depth interviews. We observe consumer and customer behavior, for example, through home visits. We also gain insight into the needs of consumers and their perceptions of our products by following the discussions on our websites, such as www.libero.com, www.libresse.com and www.tena.com, and on social media.

Digital sales and marketing

By developing market-leading digital solutions in hygiene and health, we improve our offering to customers and consumers. One example is our webshops for incontinence products. The TENA Webshop for consumers is available in 21 countries. The webshop is a strategic sales channel to increase knowledge about incontinence, drive market penetration and provide us with further consumer insight. In 2018, the webshop was further developed and adapted for mobile phones.

Examples of awards in 2018

"Innovation Award"
from Sodexo Supply Management for Tork EasyCube®

"Supplier of the Year"
from Network, an organization with 75 independent distributors in North America

"Cornerstone Partner Award"
from Gordon Food Service (GFS) in North America

"Guldnyckeln"
to Libresse's digital marketing campaign The Period Challenge

"Best Brands 2018"
awarded by the German newspaper Lebensmittel Zeitung to Tempo and Zewa

"Best Toilet Paper – Zewa Just1"
"Best Daily Feminine Liners – Libresse Dailyfresh"
from A.S. Watson Group at the "Consumers' Choice" ceremony in Russia

TENA Complete™
is a high-quality and cost-efficient incontinence product that improves for users and caregivers.

Innovate bigger brands

Successful innovations and strong brands go hand in hand. During 2018, Essity launched 29 innovations that simplify everyday life for people and strengthen Essity's brands and market positions. Essity's innovation strategy is to consistently deliver better, safer and more environmentally sound products and services to our customers and consumers. We intend to increase the pace and impact of our innovations as well as capitalize on global economies of scale and ensure that we have a competitive portfolio of innovations.

Innovation for a sustainable and circular society

During the year, Essity's unit with global responsibility for customer and consumer brands and innovation was given a new name: Global Brand, Innovation and Sustainability. The unit now also covers sustainability and public affairs, since innovation and product development are crucial for pursuing and improving our sustainability efforts. We are developing offerings and business models that promote a sustainable and circular society, both to meet the needs of our customers and consumers and to reduce our environmental impact. We strive to develop better solutions for efficient recycling or composting of our products.

Digital applications

To increase customer and consumer benefit and to strengthen Essity's brands, digital offerings are developed in the various product categories. In Baby Care, for example, with the Libero brand, Essity developed a new app in 2018 that includes a pregnancy calendar, tips and facts from the Libero Club's own midwife, a parenting forum and the opportunity to create a photo album for the family.

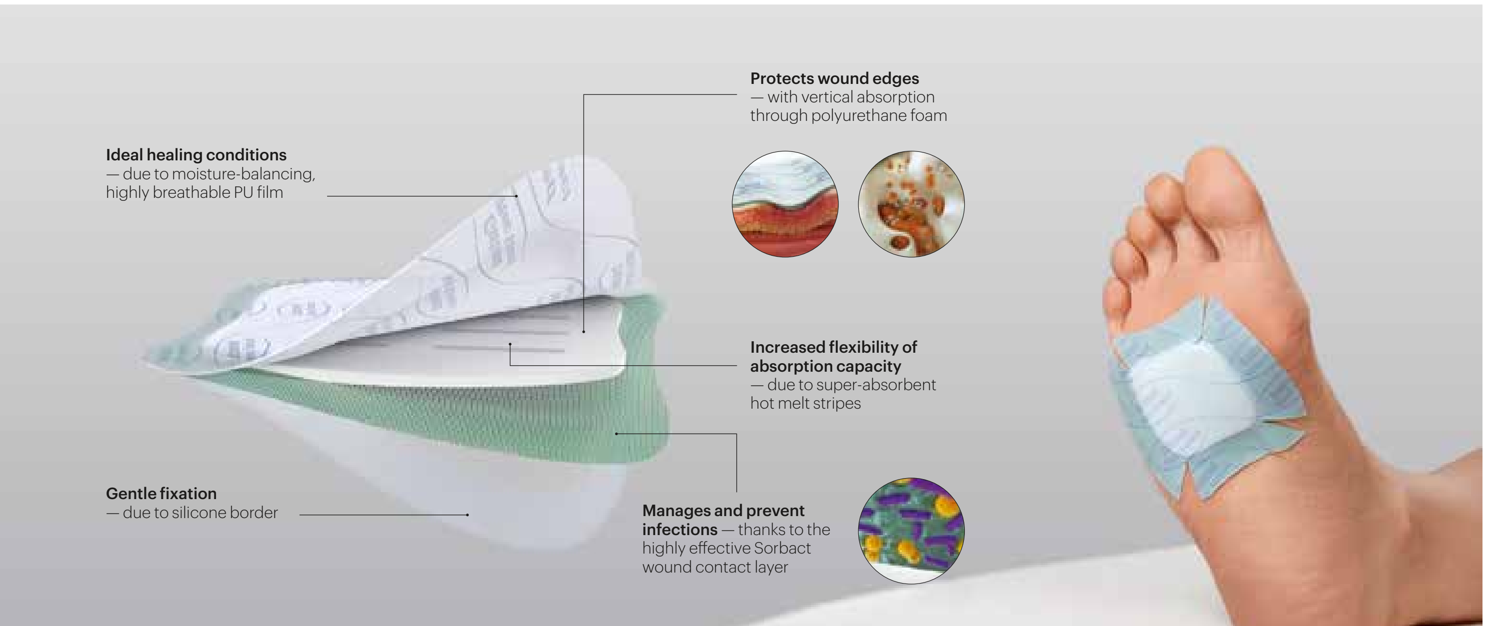
Effective taboo-breaking marketing

Essity's marketing is often about breaking taboos and stigma surrounding menstruation and incontinence. In 2018, Essity received more than 50 awards, including Cannes Lions Titanium, Grand Prix Glass Lion for Change and Grand Prix of Excellence at the Marketing Society, for the #bloodnormal advertising campaign. This marketing was a joint initiative for our various Feminine Care brands and had one mission: to break the taboos surrounding menstruation and that are holding back women. We are running the campaign in Mexico under the Saba brand, in the UK under Bodyform and in Malaysia under Libresse.

Awards and initiatives

In 2018, Essity won the "Technological Innovation of the Year" award for the Tork EasyCube® and the "Best Practice: Sustainability" award for Tork PaperCircle™ at the European Cleaning & Hygiene Awards. These are examples of how Essity's innovation efforts drive increased customer benefit and reduced environmental impact.

Essity joined the Ellen MacArthur Foundation's New Plastic Economy Global Commitment "A line in the sand" in 2018, where we are working toward 100% recyclability of the company's packaging by 2025.



Cutimed® Siltec® Sorbact® should be the first choice for chronic wounds that require a combination of infection control and exudate management. Cutimed® Siltec® Sorbact® has no known side effects and is therefore a safe alternative to silver dressings. The effect is clinically proven and the product can also be used to prevent infection.

Drive efficiency

Essity is working to leverage global economies of scale and expertise to continuously increase efficiency in all parts of the business, from the supply chain to sales and administration. We are working to establish a world-class supply chain. By improving productivity, reducing material, energy and logistics costs and minimizing waste, we reduce our costs and improve our earnings at the same time as we reduce the environmental impact.

Safety first

Essity is working to nurture a culture where safety is top of mind and unsafe working conditions and behaviors are immediately reported and rectified in order to prevent accidents. Essity's aim is zero workplace accidents. Our employees continuously receive training so that everyone in the organization will be able to detect and eliminate hazards. In 2018, the theme of Essity's annual global safety week was "Everyone is a safety leader — so are you." During 2018, the accident frequency rate decreased by 1% and in 2014–2018 it fell by 39%. The target is to reduce the accident frequency rate by 50% between 2014 and 2020.

Digitalization for world-class production

During the year, we continued to implement digital solutions including self-regulating processes, smart sensors, data analyses and robotization and automation to improve product quality and efficiency.

Digital quality controls
In 2018, our Personal Care facility in Hoogezand, the Netherlands, has worked to replace the manual quality control of production lines with digital controls to improve both product quality and efficiency.

Cost savings

We have intensified our efficiency improvements and restructuring of the business and achieved SEK 1,040m in cost savings during the year.

To improve efficiency and increase value creation in the Consumer Tissue and Professional Hygiene business areas, Tissue Roadmap was launched in 2016. The aim is to achieve the lowest cost position combined with the best quality in each market in which we choose to operate. As part of the Tissue Roadmap, we took decisions during the year on restructuring measures in Europe, North America and Latin America.

To improve profitability and strengthen long-term cost efficiency, Essity introduced a Group-wide cost-savings program in September 2018. The program is expected to generate annual cost savings of approximately SEK 900m, with full effect at the end of 2019. The cost-savings program is being implemented in all parts of the Group to reduce the cost base related to cost of goods sold and costs for sales, general and administration. The program includes headcount reductions of approximately 1,000 positions and is in addition to the efficiency initiatives already in progress in the company, for example Tissue Roadmap.

Reduced resource consumption

To achieve increased cost savings while contributing to a sustainable and circular society, Essity continued its work during the year on reducing material and energy use. The accumulated energy savings in the 2010–2018 period amounted to 8%.

New organization for increased efficiency

Changes were implemented to the company's organizational structure and Executive Management Team in 2018. For example, the two units Global Hygiene Supply Tissue and Global Hygiene Supply Personal Care were merged into one unit, Global Manufacturing, with responsibility for production and technology. A new unit, Global Operational Services, was created in order to further strengthen the Group's overall work related to operational and cost efficiency. The unit encompasses sourcing, logistics, business services, IT and digitalization. The number of Group functions was reduced from six to four.

The hygiene and health market

In 2018, the global hygiene and health market amounted to approximately SEK 1,210bn, of which the global market for personal care accounted for approximately SEK 620bn and the global market for tissue accounted for approximately SEK 590bn.

The global market for personal care is divided into baby care (approximately SEK 250bn), feminine care (approximately SEK 140bn), incontinence products (approximately SEK 100bn) and medical solutions (approximately SEK 130bn). The global market for tissue is broken down into consumer tissue (approximately SEK 440bn) and professional hygiene (approximately SEK 150bn).

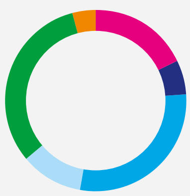
Market growth is positively impacted by global hygiene and health trends and increased awareness of the importance of hygiene to avoid diseases and improve health.

Personal care market

Growth in consumption of personal care products is supported by favorable demographic trends in emerging and mature markets. Shifts in global demographics such as population growth and increased longevity as well as higher disposable income point to continued good growth for personal care. The effect of higher disposable income is that more people prioritize hygiene when food and housing needs have been, or are in the process of being, satisfied. The growth potential for personal care is greatest in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, improved infrastructure and the retail trade are evolving rapidly. One example of the lower market penetration in emerging markets is that the consumption rates for incontinence products in Asia are only about one-sixth of those in Western Europe. In mature markets, baby care and feminine care have attained high market penetration. However, market penetration for incontinence products in mature markets is still relatively low for certain product segments, particularly among men, which Essity believes is due to lack of awareness and the stigma associated with incontinence.

The hygiene and health market

Global market by region



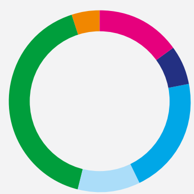
Personal Care

Essity's market positions

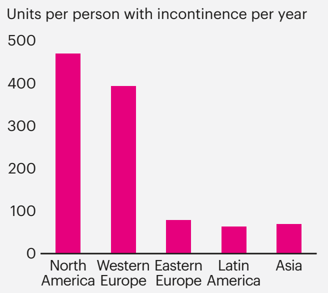
	GLOBAL	EUROPE	NORTH AMERICA	LATIN AMERICA	ASIA
Incontinence Products	1	1	4	1	3
Baby Care	5	2	–	6	6
Feminine Care	6	3	–	1	10
Medical Solutions[1]	4	1	12	1	2

[1] In medical solutions, in the market in which the company is active, Essity is the world's fourth largest player.

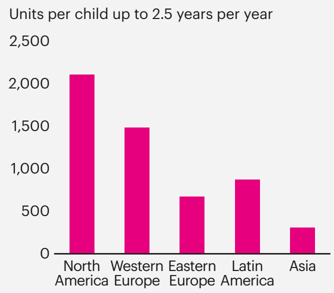
Personal Care – global market



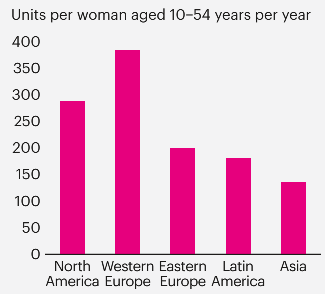
Use of incontinence products



Use of baby care



Use of feminine care



Source: The information has been compiled by Essity for presentation purposes based on statistics taken from external market sources, including IRI, Price Hanna Consultants and National Macro Economics.

Incontinence, which is classified as a disease by the World Health Organization (WHO), affects 4–8% of the world's population, corresponding to approximately 400 million people. Many indicators point to the proportion of people affected increasing on a global scale as a result of an aging population. By 2020, the population of the world over the age of 60 is expected to have increased to over one billion. The occurrence of incontinence among people over the age of 65 is expected to be between 15 and 20%.

An aging population and increased prevalence of chronic conditions are expected to increase demand for incontinence products and medical solutions.

Essity's competitors in personal care include Kimberly-Clark, Procter & Gamble, Unicharm and 3M.

Tissue market

Shifts in global demographics such as population growth and increased longevity as well as higher disposable income point to continued good growth for tissue. The effect of higher disposable income is that more people prioritize hygiene when food and housing needs have been, or are in the process of being, satisfied. The growth potential for tissue is considered greatest in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, improved infrastructure and the retail trade are evolving rapidly. One example of the lower market penetration in emerging markets is that tissue consumption per capita per year in Eastern Europe is only about one-third of that in Western Europe. Growth is also occurring in mature markets owing to lifestyle changes and innovations that lead to increased use.

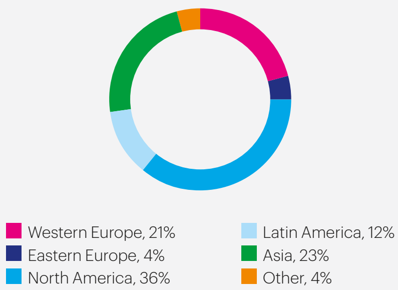
Essity's competitors in tissue include Georgia-Pacific, Hengan, Kimberly-Clark and Sofidel.

Consumer Tissue and Professional Hygiene

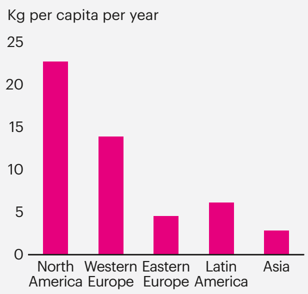
Essity's market positions

	GLOBAL	EUROPE	NORTH AMERICA	LATIN AMERICA	ASIA
Consumer Tissue	2	1	–	3	1
Professional Hygiene	1	1	2	4	3

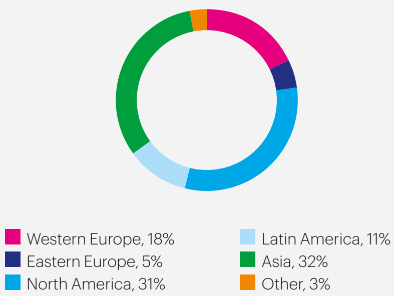
Professional Hygiene – global market



Use of tissue



Consumer Tissue – global market

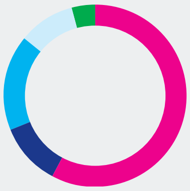


Personal Care

Libresse V-Care™ Range
Our new range of intimate washes, wipes & liners specifically designed for a feeling of intimate cleanliness and well-being everyday.

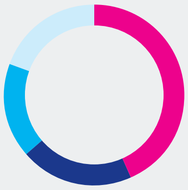
TENA Leukoplast® JOBST Delta-Cast® Actimove® Cutimed® Libero
Lotus Baby Drypers Pequeñín Bodyform Libresse Nana Saba Nosotras

Net sales by region



- Europe, 58%
- North America, 11%
- Latin America, 17%
- Asia, 10%
- Other, 4%

Net sales by product category



- Incontinence Products, 44%
- Baby Care, 20%
- Feminine Care, 17%
- Medical Solutions, 19%

For Personal Care, 10% of total net sales were related to retailer brands. For Incontinence Products: 1%, Baby Care: 41%, Feminine Care: 5%, Medical Solutions: 0%.

Emerging markets accounted for

of the business area's net sales in 2018. In emerging markets, organic net sales increased by 4.4% in 2018.

Essity is a leading global player in personal care

Offering

Essity's offering includes Incontinence Products, Medical Solutions, Baby Care and Feminine Care. Products are sold under brands such as TENA, JOBST, Leukoplast, Libero, Libresse, Nosotras and Saba, and as retailer brands.

In Incontinence Products, with the globally leading brand TENA, Essity offers a broad range of incontinence products that also includes skincare products, wet wipes and wash gloves. In Baby Care, Essity offers open baby diapers and pant diapers as well as baby care products such as wet wipes, shampoo, lotion and baby oil. In Europe, Essity offers baby diapers under its own Libero and Lotus brands and as retailer brands. In Feminine Care, Essity offers a broad product portfolio that includes pads, panty liners, tampons, intimate soaps and intimate wipes. In Medical Solutions, Essity offers products and services in wound care, vascular and orthopedics.

Distribution channels are the retail trade, online sales, pharmacies, hospitals, distributors and care institutions.

Market positions

Essity is the global market leader in the market for incontinence products with the TENA brand, holding a global market share that is about twice the size of the second largest player. Essity is the market leader in Europe, Asia (excluding Japan) and Latin America. Essity is the third largest player in Asia (including Japan) and the fourth largest in North America.

In Baby Care, Essity is the world's fifth largest player in the area and the second largest in Europe. Essity's strongest market is the Nordic region, where the Libero brand is the market leader. Examples of other strong regional brands are Drypers in South East Asia and Pequeñin in South America.

In Feminine Care, Essity is the world's sixth largest player, the third largest in Europe and the market leader in Latin America. Examples of regional brands supported by Essity's global brand platform in Feminine Care include Libresse in the Nordic region, Russia, Eastern Europe, the Netherlands and Malaysia, Bodyform in the UK, Nana in France, the Middle East and North Africa, and Saba and Nosotras in Latin America.

In Medical Solutions, in the product categories in which the company is active, Essity is the world's fourth largest player. Essity is the market leader in Europe and Latin America. Essity is the largest global player in vascular and the third largest player in orthopedics. In wound care, which includes acute and advanced wound care, Essity is the sixth largest player. Essity holds the number two position within acute wound care. Examples of strong brands include JOBST, Leukoplast, Cutimed, Delta-Cast and Actimove.

Production facilities

At the end of 2018, Personal Care had production at 37 sites in 24 countries.

Operations in 2018

Net sales increased 11.7% to SEK 45,342m (40,586). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.0%, of which volume accounted for 2.4% and price/mix for 0.6%. Organic net sales in mature markets increased 2.3%. In emerging markets, which accounted for 36% of net sales, organic net sales increased 4.4%. Acquisitions increased net sales by 5.8%, of which the acquisition of BSN medical accounted for 4.8% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 1.0%. Exchange rate effects increased net sales by 2.9%.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 4.2%. For Baby Care, organic net sales decreased 2.3%. For Feminine Care, organic net sales increased 9.3%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 7% (declined 6% excluding currency translation effects and acquisitions) to SEK 6,354m (5,937). The increase was mainly related to a better price/mix, higher volumes, cost savings and the acquisition of BSN medical. Higher raw material and energy costs and higher distribution costs negatively impacted earnings. Acquisitions increased profit by 7%, of which the acquisition of BSN medical accounted for 6% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 1%.

Key figures

SEKm	2018	2017	%
Net sales	45,342	40,586	12%
Organic net sales[1], %	+3.0%	+1.8%	
Adjusted EBITA[2]	6,354	5,937	7%
Adjusted EBITA margin[2], %	14.0%	14.6%	
Adjusted return on capital employed[2], %	15.3%	20.5%	
Operating cash flow	5,812	5,453	7%
Investments in non-current assets	–2,134	–2,074	
Average number of employees	18,328	17,088	

[1] Excluding exchange rate effects, acquisitions and divestments.
[2] Excluding items affecting comparability.

Net sales
SEK 45,342m

Organic net sales[1]
+3.0%

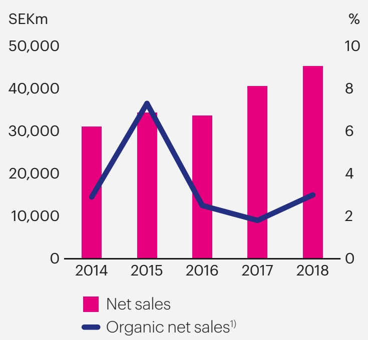
Adjusted EBITA[2]
SEK 6,354m

Adjusted EBITA margin[2]
14.0%

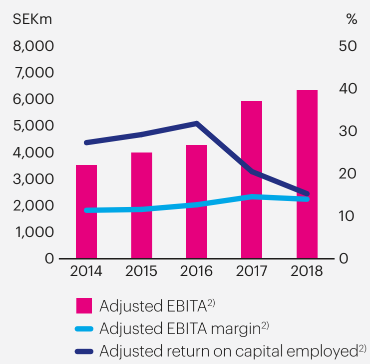
Adjusted return on capital employed[2]
15.3%

[1] Excluding exchange rate effects, acquisitions and divestments.
[2] Excluding items affecting comparability.

Net sales and organic net sales[1]



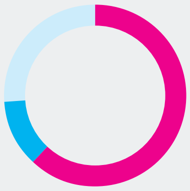
Adjusted EBITA[2], adjusted EBITA margin[2] and adjusted return on capital employed[2]



Consumer Tissue

Lotus Moltonel Sans Tube/Zewa Smart
Our first coreless toilet paper: no empty core to be discarded and thus less waste, and because it holds more paper it lasts longer.

Net sales by region



- Europe, 62%
- Latin America, 12%
- Asia, 26%

For Consumer Tissue, 34% of total net sales was related to retailer brands.

Emerging markets accounted for

of the business area's net sales in 2018. In emerging markets, organic net sales increased by 5.0% in 2018.

Essity is the world's second largest supplier of consumer tissue

Offering

Essity's offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Products are sold under brands such as Edet, Lotus, Regio, Tempo, Vinda and Zewa. In Europe, Essity also sells products under retailer brands. Products sold under Essity's own brands account for about 66% of net sales, while the remaining 34% are sold under retailer brands.

Distribution channels are the retail trade and online sales.

Market positions

Essity is the world's second largest supplier of consumer tissue. Essity's brand portfolio comprises many strong brands.

In Europe, Essity is the market leader and holds a market share that is approximately twice the size of the second largest player. Lotus, Tempo and Zewa are the leading brands in, for example, France, Germany and Russia, while Cushelle, Velvet and Plenty are strong brands in the UK and Ireland, and Edet in the Nordic region and the Netherlands.

Essity is the market leader in China through its majority shareholding in Vinda. Vinda is the leading brand in China.

In Latin America, Essity is the market leader in Colombia and holds the number two position in Mexico. Familia and Regio are leading brands in Colombia and Mexico respectively.

Production facilities

At the end of 2018, Consumer Tissue had production at 47 sites in 19 countries.

Operations in 2018

Net sales increased 7.4% to SEK 45,125m (42,014). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.6%, of which volume accounted for –1.1% and price/mix for 3.7%. The increase was mainly attributable to Asia and Europe. Organic net sales increased 0.7% in mature markets. In emerging markets, which accounted for 44% of net sales, organic net sales increased by 5.0%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.5%. Exchange rate effects increased net sales by 4.3%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 18% (22% excluding currency translation effects and acquisitions) to SEK 3,331m (4,084). Higher prices and a better mix as well as cost savings positively impacted earnings. Higher raw material and energy costs as well as higher distribution costs negatively impacted earnings. The significantly higher raw material costs were mainly the result of higher pulp prices.

Key figures

SEKm	2018	2017	%
Net sales	45,125	42,014	7%
Organic net sales[1], %	+2.6%	+0.5%	
Adjusted EBITA[2]	3,331	4,084	–18%
Adjusted EBITA margin[2], %	7.4	9.7	
Adjusted return on capital employed[2], %	7.4	9.8	
Operating cash flow	3,691	3,850	–4%
Investments in non-current assets	–3,074	–2,889	
Average number of employees	21,235	21,397	

[1] Excluding exchange rate effects, acquisitions and divestments.
[2] Excluding items affecting comparability.

Net sales
SEK 45,125m

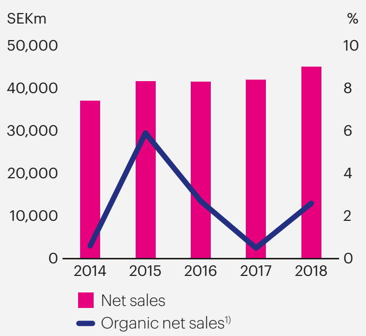
Organic net sales[1]
+2.6%

Adjusted EBITA[2]
SEK 3,331m

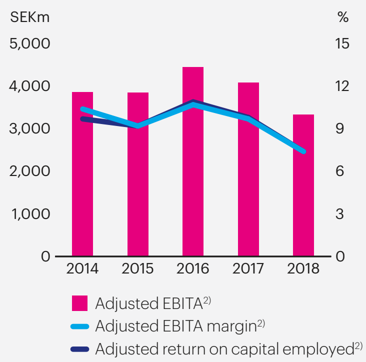
Adjusted EBITA margin[2]
7.4%

Adjusted return on capital employed[2]
7.4%

Net sales and organic net sales[1)]



Adjusted EBITA[2)], adjusted EBITA margin[2)] and adjusted return on capital employed[2)]



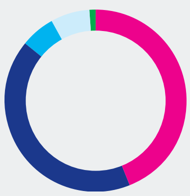
[1)] Excluding exchange rate effects, acquisitions and divestments.
[2)] Excluding items affecting comparability.

Professional Hygiene

Tork Reflex® Single Sheet Centrefeed Dispenser
The ideal hand and surface wiping solution for professional environments, designed to fit workplace flow. This easy-to-use, hygienic and durable system increases flexibility and helps users work more efficiently. Single sheet dispensing cuts down on waste by reducing paper consumption by up to 37% when compared to the Tork Centrefeed system.

TORK
Think ahead.

Net sales by region



- Europe, 44%
- North America, 42%
- Latin America, 6%
- Asia, 7%
- Other, 1%

Emerging markets accounted for

of the business area's net sales in 2018. In emerging markets, organic net sales increased by 13.7% in 2018.

Essity is the leading global player in professional hygiene

Offering
Essity's offering comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products as well as service and maintenance. Essity also offers digital solutions, such as Internet of Things sensor technology.

Customers consist of companies and office buildings, universities, healthcare facilities, industries, restaurants, hotels, stadiums and other public venues. Distribution channels consist of distributors and online sales.

Market positions
Essity is the world's largest supplier of products and services in the market for professional hygiene with the globally leading Tork brand. We are the market leader in Europe and hold a market share that is approximately twice the size of the second largest player. Essity is the second largest supplier in North America and holds a particularly strong market position in the foodservice segment, where we estimate that the company supplies approximately every second napkin. Essity also has strong positions in emerging markets, such as Russia and Colombia, where we are the market leader.

Production facilities
At the end of 2018, Professional Hygiene had production at 45 sites in 18 countries.

Operations in 2018
Net sales increased 4.9% to SEK 28,017m (26,700). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.9%, of which volume accounted for –0.3% and price/mix for 2.2%. The increase was primarily related to Europe, Asia and Latin America. Organic net sales decreased 0.6% in mature markets. Organic net sales increased in Western Europe while it decreased in North America. In emerging markets, which accounted for 19% of net sales, organic net sales increased 13.7%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased net sales by 0.1%. Exchange rate effects increased net sales by 2.9%.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 4% (8% excluding currency translation effects and acquisitions) to SEK 3,841m (4,004). Earnings were impacted positively by higher prices, a better mix and cost savings. Higher raw material and energy costs as well as higher distribution costs had a negative impact on earnings.

Key figures

SEKm	2018	2017	%
Net sales	28,017	26,700	5%
Organic net sales[1], %	+1.9%	+1.5%	
Adjusted EBITA[2]	3,841	4,004	–4%
Adjusted EBITA margin[2], %	13.7	15.0	
Adjusted return on capital employed[2], %	18.1	19.7	
Operating cash flow	3,678	4,411	–17%
Investments in non-current assets	–1,336	–888	
Average number of employees	7,659	7,900	

1) Excluding exchange rate effects, acquisitions and divestments.
2) Excluding items affecting comparability.

Net sales
SEK 28,017m

Organic net sales[1)]
+1.9%

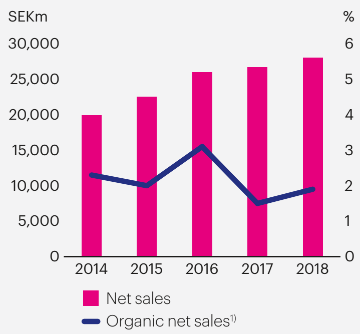
Adjusted EBITA[2)]
SEK 3,841m

Adjusted EBITA margin[2)]
13.7%

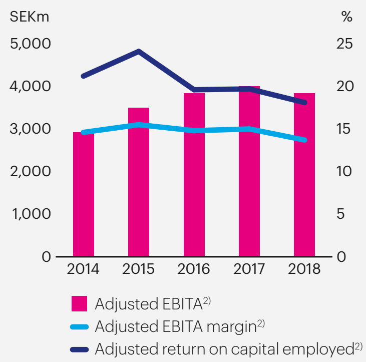
Adjusted return on capital employed[2)]
18.1%

1) Excluding exchange rate effects, acquisitions and divestments.
2) Excluding items affecting comparability.

Net sales and organic net sales[1)]



Adjusted EBITA[2)], adjusted EBITA margin[2)] and adjusted return on capital employed[2)]



Operations and structure

Essity reports its operations according to three business areas: Personal Care, Consumer Tissue and Professional Hygiene. Personal Care includes the Incontinence Products, Medical Solutions, Baby Care and Feminine Care product categories. Consumer Tissue includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Professional Hygiene includes complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap and dispensers.

Europe is Essity's largest market. The Group also holds strong positions in North America, Latin America and Asia. Expansion takes place through organic growth and acquisitions.

Organization

Essity has the following four business units:

- Consumer Goods, which offers consumer tissue, baby care and feminine care in Europe, the Middle East and Africa.
- Health and Medical Solutions, which offers incontinence products in Europe, North America, the Middle East and Africa and medical solutions in Asia, Europe, North America, the Middle East and Africa.
- Latin America, which offers consumer tissue, baby care, incontinence products, medical solutions, feminine care and professional hygiene in Latin America.
- Professional Hygiene, which offers professional hygiene in Europe, North America, the Middle East and Africa.

In addition to the business units, Essity has established three global units:

- Global Brand, Innovation and Sustainability has global responsibility for customer and consumer brands, innovation and sustainability and public affairs.
- Global Manufacturing has global responsibility for production and technology concerning all product categories with the exception of Medical Solutions.
- Global Operational Services has global responsibility for sourcing, logistics, business services, IT and digitalization.

The organization has four Group functions:

- Communications
- Finance
- Human Resources
- Legal Affairs

Essity exerts an influence on the subsidiary Vinda, a listed Asian hygiene company in which Essity is a majority shareholder, through board representation.

Events during the year

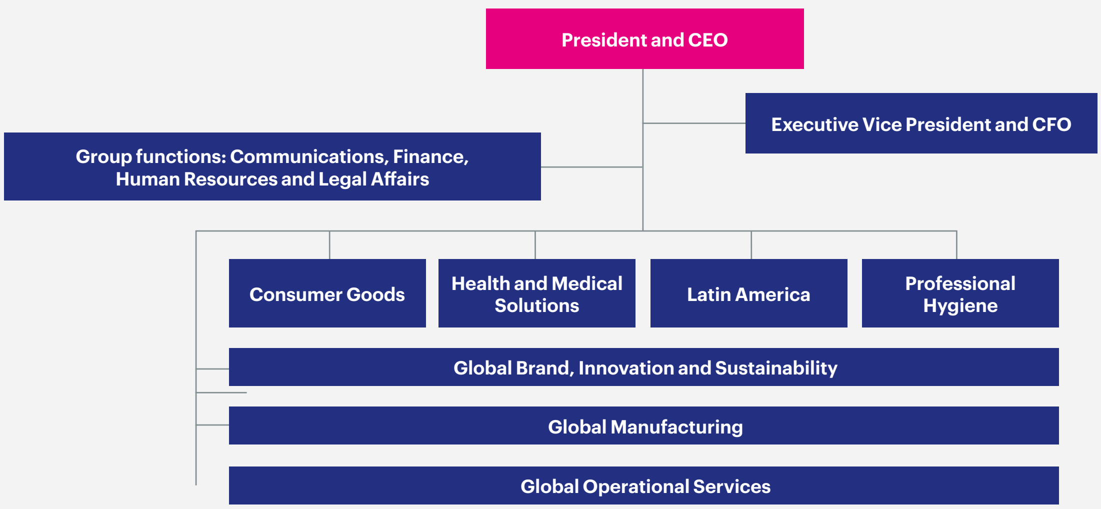
During the year, decisions were taken on restructuring measures in tissue production in Europe, North America and Latin America.

On September 28, 2018, Essity announced that the company was launching a Group-wide cost-savings program. The program is expected to generate annual cost savings of approximately SEK 900m, with full effect at the end of 2019.

On October 29, 2018, Essity announced that the company was making changes to its organizational structure and Executive Management Team.

On December 28, 2018, the Supreme Administrative Court announced its decision in a tax case in Sweden. The decision reduced Essity's reported tax expense by approximately SEK 1.1bn in the fourth quarter of 2018. Taxes paid will be refunded to Essity in the first quarter of 2019.

Organization



Acquisitions, investments and divestments

Company acquisition in Peru and Bolivia

On February 16, 2018, Familia, in which Essity has a 50% stake, acquired the remaining 50% of the company Productos Sancela del Peru with operations in Peru and Bolivia. The consideration transferred amounted to SEK 310m. Essity has consolidated Productos Sancela del Peru as a subsidiary with a non-controlling interest. Prior to the acquisition, the company was consolidated as an associate according to the equity method. The previously owned share of equity was remeasured at fair value in the amount of SEK 225m and recognized as an item affecting comparability in the income statement.

Company acquisition in Ecuador

On April 3, 2018, Familia, in which Essity has a 50% stake, acquired the company Industrial Papelera S.A. (INPAECSA) with operations in Ecuador. The consideration transferred amounted to SEK 68m.

Essity strengthens Professional Hygiene in Europe

On February 22, 2018, Essity announced the company's decision to invest in creating a center for napkin production at the existing production facility in Altopascio, Italy. The investment will further strengthen the competitiveness of Professional Hygiene in Europe. The investment will lead to restructuring measures at multiple production facilities across Europe in the coming years. The total investments will amount to approximately SEK 590m, of which the majority is related to investments in Altopascio, Italy.

Other Group information

Parent Company

The Group's Parent Company, Essity Aktiebolag (publ), is a holding company with the main task of owning and managing shares in a number of business group companies and performing Group-wide management and administrative functions. The company's corporate registration number is 556325-5511 and it is domiciled in Stockholm, Sweden. The company's address is PO Box 200, SE-101 23 Stockholm. In 2018, the Parent Company recognized operating income of SEK 192m (367) and profit before appropriations and tax of SEK 17,102m (1,681). Investments in non-current assets totaled SEK 1m (0) during the year. Cash and cash equivalents at year-end amounted to SEK 0m (0).

Research and development (R&D)

Research and development (R&D) costs during the year amounted to SEK –1,320m (–1,239), corresponding to about 1.1% of consolidated net sales. R&D is coordinated and conducted from a global perspective. Product development is carried out in close cooperation with the local units, as well as through direct collaboration with customers.

Holdings of treasury shares

Essity Aktiebolag (publ) holds no treasury shares.

Share distribution

In 2018, 147,667 Class A shares were converted into Class B shares. The proportion of Class A shares was 9.1% at year-end.

Dividend

The Board of Directors proposes a dividend of SEK 5.75 (5.75) per share or SEK 4,038m (4,038). The record date for entitlement to receive dividends is proposed as April 8, 2019.

Environmental impact in Sweden

Essity Aktiebolag (publ) is conducting one operation in Sweden for which a permit is required relating to tissue manufacturing. This operation impacts the environment through emissions to air and water, solid waste and noise.

Sustainability report

Essity's statutory sustainability report, in accordance with the requirements of the Swedish Annual Accounts Act, can be found on pages 33–45 and 114–121 in the Board of Directors' Report. The company's business model can be found on page 11. This sustainability report for Essity Aktiebolag (publ) encompasses the entire Group. More information on non-financial accounting principles can be found in Note H1, page 114.

Guidelines for remuneration of senior executives

The Board of Directors has decided to propose to the AGM 2019 the following guidelines for determining salaries and other remuneration for senior executives to apply for the period following the AGM.

"Remuneration of senior executives will be a fixed salary, variable remuneration, additional benefits and pension. Senior executives include the President, Executive Vice President, Business Unit President and equivalent, as well as Group Function Senior Vice President. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession and linked to the executive's responsibility and authority. The variable remuneration is to be limited and linked to the fixed remuneration, based on performance results in relation to the annual and long-term established targets. In the event of termination of employment, the notice period should normally be up to two years if termination is initiated by the company, and up to one year, when initiated by the senior executive. Severance pay should not exist. Pension benefits should, to the extent possible, only contain defined contribution pension benefits and entitle the executive to receive a pension from the age of 65. Variable remuneration is not part of pensionable income. The board of directors shall be entitled to deviate from the adopted guidelines if, in an individual case, there are special reasons for doing so. The guidelines shall not prevail over mandatory conditions under labour law or collective agreements. Neither do they apply to existing agreements."

For information concerning the company's application of previously agreed guidelines and information on the company's calculated expenses for remuneration of senior executives, see Note C3 on pages 80–82.

Net sales and earnings

Net sales

Essity's net sales for 2018 increased 8.5% compared with the corresponding period a year ago to SEK 118,500m (109,265). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.6%, of which volume accounted for 0.5% and price/mix for 2.1%. Organic net sales increased 0.9% in mature markets and increased 5.9% in emerging markets. Emerging markets accounted for 35% of net sales. Exchange rate effects increased net sales by 3.5%. Acquisitions increased net sales by 2.4%, of which the acquisition of BSN medical accounted for 1.8% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 0.6%.

Earnings

Essity's adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA)[1] for 2018 declined 4% (11% excluding currency translation effects and acquisitions) to SEK 12,935m (13,405). Higher prices, a better mix, higher volumes, cost savings and the acquisition of BSN medical had a positive impact on earnings. Cost savings amounted to SEK 1,040m, of which SEK 18m was related to the Group-wide cost-savings program. Higher raw material and energy costs had a negative earnings effect of SEK –4,705m, which corresponds to a negative impact on the adjusted EBITA margin of –4.2 percentage points. Furthermore, higher distribution costs had a negative impact on earnings. The acquisition of BSN medical increased profit by 2%. Acquisitions relating to the increase in the shareholding in associates in Latin America increased profit by 1%.

Items affecting comparability amounted to SEK –1,444m (–940) and include costs of approximately SEK –1,230m related to restructuring measures at production facilities in Professional Hygiene and Consumer Tissue. Impairments in the associate Asaleo Care had an impact of SEK -280m on items affecting comparability. Restructuring costs related to the Group-wide cost-savings program had a negative impact of SEK –130m on items affecting comparability. Acquisitions relating to the increase in the shareholding in associates in Latin America positively impacted items affecting comparability by SEK 165m. A reversal of a provision for foreign tax of a non-recurring nature on non-current assets outside Sweden had a positive impact of SEK 290m on items affecting comparability. Other costs negatively impacted items affecting comparability by SEK –259m.

Financial items decreased to SEK –1,157m (–1,182). The decrease is primarily due to lower interest. Higher average net debt had a negative impact on financial items during the period.

Adjusted profit before tax[1] decreased 5% (12% excluding currency translation effects and acquisitions) to SEK 11,046m (11,663).

The tax expense, excluding effects of items affecting comparability, was SEK 1,490m (2,191). The reported tax expense was reduced by about SEK 1.1bn due to a decision in a tax case in Sweden.

Adjusted profit for the period[1] increased 1% (decreased 6% excluding currency translation effects and acquisitions) to SEK 9,556m (9,472).

Profit for the period decreased 3% (10% excluding currency translation effects and acquisitions) to SEK 8,552m (8,785). Earnings per share were SEK 11.23 (11.56). The adjusted earnings per share[3] were SEK 13.32 (13.09).

Key figures

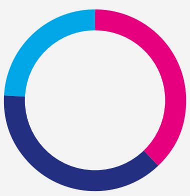
The Group's adjusted gross margin[1] amounted to 28.2% (29.6) and the adjusted EBITA margin[1] was 10.9% (12.3). Adjusted return on capital employed[1] was 12.0% (14.9). Adjusted return on equity[1] was 18.0% (21.3). The interest coverage ratio was 9.3 (10.1).

Summary income statement

SEKm	2018	2017	2016
Net sales	**118,500**	109,265	101,238
Adjusted EBITA[1]	**12,935**	13,405	11,992
EBITA	**11,560**	12,550	9,347
Adjusted operating profit[1]	**12,203**	12,845	11,833
Items affecting comparability	–1,444	–940	–2,825
Operating profit	**10,759**	11,905	9,008
Financial items	–1,157	–1,182	-835
Adjusted profit before tax[1]	**11,046**	11,663	10,998
Profit before tax	**9,602**	10,723	8,173
Adjusted tax[1) 2)]	–1,490	-2,191	–4,355
Tax[2]	–1,050	–1,938	–3,931
Adjusted profit for the period[1]	**9,556**	9,472	6,643
Profit for the period	**8,552**	8,785	4,242

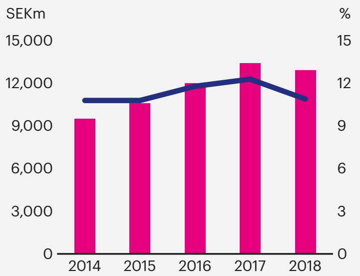
1) Excluding items affecting comparability.
2) 2018: A decision in a tax case in Sweden reduced tax by approximately SEK +1.1bn. 2017: Includes positive tax effect of a non-recurring nature of approximately SEK +550m 2016: Includes provision of approximately SEK –1.3bn.
3) Excluding items affecting comparability and amortization of acquisition-related intangible assets.

Net sales, share of Group



Personal Care, 38%
Consumer Tissue, 38%
Professional Hygiene, 24%

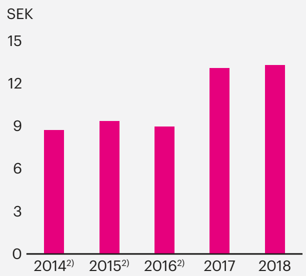
Adjusted EBITA[1] and adjusted EBITA margin[1]



Adjusted EBITA[1] — Adjusted EBITA margin[1]

1) Excluding items affecting comparability.

Adjusted earnings per share[1]



1) Excluding items affecting comparability and amortization of acquisition-related intangible assets.
2) Indicative earnings per share on the assumption that the number of issued shares in Essity as of December 31, 2016, 2015 and 2014 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).

Cash flow and financing

The operating cash surplus amounted to SEK 18,570m (18,465). The cash flow effect of changes in working capital was SEK –971m (–740). Current capital expenditures amounted to SEK –4,357m (–3,911). Operating cash flow was SEK 12,324m (12,723).

Financial items decreased to SEK –1,157m (–1,182). The decrease is primarily due to lower interest. Higher average net debt had a negative impact on financial items during the period. Income tax payments totaled SEK 2,466m (2,971). Cash flow from current operations amounted to SEK 8,787m (8,745).

Strategic capital expenditures amounted to SEK –2,424m (–2,101). The net sum of acquisitions and divestments was SEK –626m (–26,016). Dividends to shareholders impacted cash flow by SEK –4,435m (–285). Net cash flow totaled SEK 1,307m (–18,791).

Net debt increased by SEK 1,937m compared with the same point in time last year and amounted to SEK 54,404m. Excluding pension liabilities, net debt amounted to SEK 50,263m. Net cash flow reduced net debt by SEK 1,307m. 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 1,042m. Exchange rate movements increased net debt by SEK 2,202m.

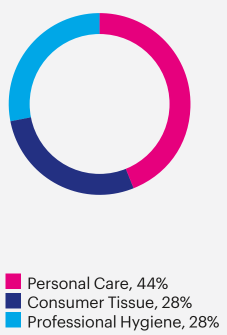
The debt/equity ratio was 0.99 (1.06). Excluding pension liabilities, the debt/equity ratio was 0.92 (0.99). The debt payment capacity was 25% (26). Net debt in relation to adjusted EBITDA amounted to 2.96 (2.83).

The Group's cash flow

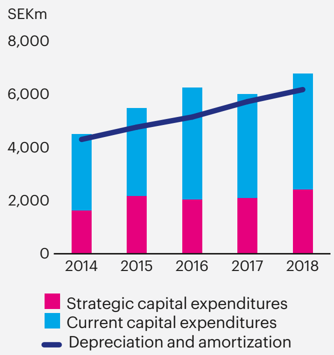
Operating cash flow statement

SEKm	2018	2017	2016
Operating cash surplus	18,570	18,465	16,759
Change in working capital	–971	–740	1,596
Current capital expenditures, net	–4,357	–3,911	–4,222
Restructuring costs, etc.	–918	–1,091	–1,102
Operating cash flow	**12,324**	12,723	13,031
Financial items	–1,157	–1,182	–835
Income taxes paid	–2,466	–2,971	–3,782
Other	86	175	149
Cash flow from current operations	**8,787**	8,745	8,563
Company acquisitions	–694	–26,045	–6,540
Strategic capital expenditures in non-current assets	–2,424	–2,101	–2,033
Divestments	68	29	369
Cash flow before dividend	**5,737**	–19,372	359
Private placement to non-controlling interests	5	28	435
Dividend to non-controlling interests	–397	–285	–190
Dividend	–4,038	0	0
Transactions with shareholders	0	838	–14,571
Net cash flow	**1,307**	–18,791	–13,967

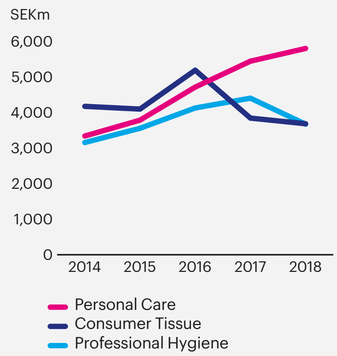
Operating cash flow, share of Group



Investments in non-current assets



Operating cash flow by business area



Financial position

Assets and capital employed
The Group's total assets increased 5% compared with the preceding year, amounting to SEK 154,266m (147,016). Non-current assets increased SEK 5,023m compared with the preceding year to SEK 112,121m (107,098), of which property, plant and equipment amounted to SEK 51,673m (48,482) and intangible assets to SEK 55,028m (53,121). Current and strategic capital expenditures in non-current assets amounted to SEK 6,781m. Total depreciation and amortization for the year was SEK 6,175m, of which amortization of acquisition-related intangible assets amounted to SEK 732m.

Current assets increased SEK 2,227m to SEK 42,145m (39,918). Working capital amounted to SEK 7,568m (5,901). Capital employed was 7% higher and totaled SEK 109,303m (102,037). The distribution of capital employed per currency is shown in the table below.

The value denominated in SEK of the Group's foreign net assets amounted to SEK 65,679m at year-end. In 2017, the Group's foreign net assets totaled SEK 65,389m.

Equity
The Group's equity increased by SEK 5,329m during the period, to SEK 54,899m (49,570). Net profit for the period increased equity by SEK 8,552m. Equity decreased by SEK 4,435m on account of the dividend to shareholders. Equity decreased net after tax by SEK 861m 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 77m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 1,976m. Other items increased equity by SEK 20m.

Financing
The Group's interest-bearing gross debt amounted to SEK 54,326m (54,838) at year-end. The maturity period was 3.5 (4.3) years.

Net debt increased by SEK 1,937m compared with the same point in time last year and amounted to SEK 54,404m. Excluding pension liabilities, net debt amounted to SEK 50,263m. Net cash flow reduced net debt by SEK 1,307m. 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 1,042m. Exchange rate movements increased net debt by SEK 2,202m.

Key figures
The debt/equity ratio was 0.99 (1.06). Excluding pension liabilities, the debt/equity ratio was 0.92 (0.99). The visible equity/assets ratio was 31% (29). The adjusted return on capital employed was 12.0% (14.9). The adjusted return on equity was 18.0% (21.3). The capital turnover rate was 1.1 (1.2). At year-end, working capital amounted to 6% (5) of net sales.

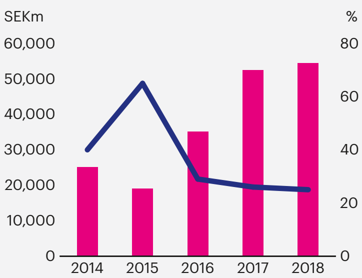
Consolidated capital employed by currency, SEKm

	2018	%	2017	%	2016	%
EUR	43,678	40	40,937	40	25,016	33
USD	20,304	19	18,020	18	14,419	19
CNY	16,865	15	15,550	15	13,402	18
MXN	5,505	5	4,621	5	4,309	6
GBP	5,325	5	5,119	5	4,306	6
Other	17,626	16	17,790	17	13,301	18
Total	**109,303**	**100**	102,037	100	74,753	100

Consolidated balance sheet

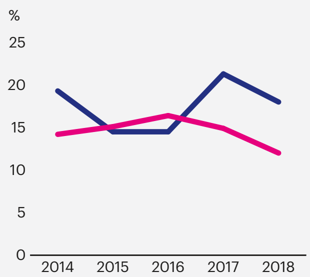
SEKm	2018	2017	2016
Intangible assets	55,028	53,121	26,918
Property, plant and equipment	51,673	48,482	47,494
Other non-current assets	5,420	5,495	3,878
Total non-current assets	**112,121**	107,098	78,290
Current assets	42,145	39,918	35,994
Total assets	**154,266**	147,016	114,284
Equity	54,899	49,570	39,580
Non-current liabilities	57,795	60,828	41,971
Current liabilities	41,572	36,618	32,733
Total equity and liabilities	**154,266**	147,016	114,284
Working capital	7,568	5,901	4,143
Capital employed	109,303	102,037	74,753
Net debt	54,404	52,467	35,173

Net debt and debt payment capacity



Net debt
Debt payment capacity, %

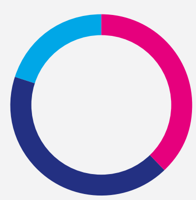
Adjusted return on capital employed and equity[1]



Adjusted return on capital employed[1]
Adjusted return on equity[1]

[1] Excluding items affecting comparability.

Capital employed, share of Group



Personal Care, 38%
Consumer Tissue, 42%
Professional Hygiene, 20%

Risks and risk management

Essity is an international group with sales in approximately 150 countries and manufacturing at about 90 production facilities in some 30 countries. The geographic structure means that operations are conducted in countries and in markets with different cultures and varying degrees of maturity. Essity is exposed to a number of strategic, operational and financial risks, which could exert a negative impact on the Group's operations. Accordingly, it is of major importance to have a systematic and effective process to identify, manage and mitigate the effects of these risks in a controlled manner.

Processes for risk management

The responsibility for the management of risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to the Business Unit Presidents. The delegation scheme entails that risks are primarily managed by Essity's business units at local level, but with central coordination and follow-up. The latter is mainly achieved through the business units' continuous reporting and in the annual strategy process. Risk identification and risk management are a key part of the latter. Identified risks are classified in this process according to the likelihood of the risk becoming a reality and the potential impact it could have on the group. The model also includes how risks shall be mitigate and followed up.

Essity's financial risk management is centralized. The Group's internal bank handles the Group's financial transactions and energy risks. The financial risks are managed in accordance with the Group's finance policy, which is decided by Essity's Board of Directors. Together with Essity's energy risk policy, the finance policy comprises a framework for financial risk management. The risks are compiled and followed up continuously.

Essity has a corporate internal audit unit, which follow up that Essity's organization complies with the set policies.

Based on current knowledge, the following are deemed to be the main factors that risk having a materially negative impact on the operations:

Risks that impact Essity's ability to achieve established targets

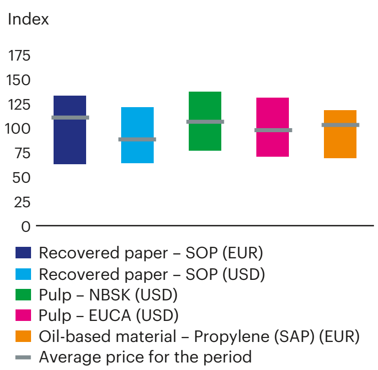
Risk	Action
GDP trend and economic conditions	
Demand for Essity's products is affected by general macroeconomic trends and the resulting fluctuations in its customers' purchasing power and consumption patterns. Professional Hygiene is the area of Essity's operations that is most sensitive to economic movements. The healthcare sector for Incontinence Products and Medical Solutions also risks being negatively impacted by the public sector's budget situation. Sales to the retail sector, which accounts for the bulk of sales of hygiene products, may also be adversely affected by reduced purchasing power among the company's consumers.	In all operations, it is important that Essity implements a number of measures to try to manage the effects of economic movements that take place. Examples of this include measures to reduce costs, reviewing the capacity and production structure, and creating higher customer value through product innovations. Essity also works on differentiation to move toward product areas that are less sensitive to economic fluctuations. An example of solutions that can create value for Essity and its customers is Tork PeakServe in Professional Hygiene, a high-capacity dispenser for towels that is labor-saving for the customer. Sensors in public toilets, which facilitate in optimizing the work to empty waste baskets and to refill paper and soap, are another example of solutions that can create value.

Risk	Action
Environmental impact and climate change	
Essity's operations and the products used in the manufacturing process have an impact on air, water and land. Essity is subject to extensive environmental regulations in all of the countries where the company conducts operations. More stringent environmental requirements, remediation of the environment in connection with plant closures or breaches of permits could incur higher costs for the Group. Risks related to climate change and the financial implications of this have attracted increased attention. Not least as a result of the 2015 Paris Agreement and new guidelines from the TCFD (Task Force on Climate-related Financial Disclosure).	Essity's strategic framework and sustainability policy stipulate guidelines for the Group's measures within the environmental area. Environmental impact and the impact of climate change are part of the annual strategy process, which includes the identification, assessment and actions for managing these types of risks. Risks are managed, for example, through preventive work in the form of certified environmental management systems, environmental risk inspections in conjunction with acquisitions, and remediation projects in connection with plant closures. The use of energy, water, transport, production waste and raw materials is controlled using the company's Resource Management System (RMS). The data is used for internal control and follow-up of established targets. Essity also works to reduce the volume of production waste. Essity has adopted the SBTi[1)]-approved Science-Based Targets to reduce the company's climate impact and to support the 2015 Paris Agreement. Essity works to reduce carbon emissions by, for example, making investments in renewable energy and energy-saving programs. [1)] SBTi: Science Based Targets initiative
Political decisions and regulatory measures	
Essity conducts operations in a large number of different countries. In some countries, the institutional structures are more established and developed, while the political, financial, legal and regulatory systems in others are less predictable. In both cases, political changes and decisions, as well as amended legislation and regulations could have a negative impact on Essity's operations in the form of higher costs or some other obstruction. In general, the regulatory requirements imposed on Essity's operations and products are intensifying. One example of risks associated with political decisions is if the UK were to leave the EU without an agreement.	Essity works continuously to monitor, evaluate and anticipate changes in its business environment in the form of political decisions and amended regulations in the areas that are of particular importance for our operations. Essity participates in various national and international industry organizations, as well as in other types of partnerships. The aim is to gain early knowledge of and contribute actively to the development of areas that are significant to our operations. Environmental and energy issues are of particular importance to Essity. The circular economy, use of resources and more specifically, issues relating to waste, plastics, chemicals, and emissions to water and air are examples of other key areas. The public sector is both a significant customer and an important stakeholder group for Essity. The company is therefore working actively on matters relating to health and medical care, as well as care for the elderly. By complying with and contributing to the development of relevant regulations, Essity shares its experience garnered from existing systems to decision-makers in countries where new structures are being built or existing systems reformed. An example of this is the development of systems for subsidized prescription of incontinence aids in countries where such benefits were not offered in the past. Similarly, Essity monitors developments in regulations covering medical solutions. Measures adopted by the company to limit the effects if the UK leaving the EU without an agreement include an increase in inventory levels and transport capacity in the UK.
Competition	
Essity is subject to considerable competition from other producers of similar products. Essity is also exposed to the risk that alternative products and solutions with the same or similar function (substitutes) could replace the products included in Essity's range. Substitutes exist for virtually all Essity products. This may involve such products as cloth diapers or cloth rags for household or industrial cleaning, or completely different solutions to meet the needs of consumers, such as menstrual cups or electric hand dryers. Competition and the occurrence of substitutes presents the risk of a negative effect on sales and pricing of Essity's products and jeopardizes the company's market position.	Essity's focus on customer and consumer insight guides its innovation activities, ensuring that new products and services are competitive. Essity develops the company's offering to meet the needs of customers and consumers in terms of the products themselves, but also in providing these in the relevant sales channels. New solutions are developed through the company's own research and development activities in cooperation with customers, consumers, suppliers or partners. Through its processes for monitoring the business environment, Essity follows up on new players and substitutes in the market and their impact on the company. Read more about innovation on page 18.

Risk	Action
Dependence on major customers and sales channels	
Essity's success is attributable to its ability to offer attractive products, services and brands and to make these available to customers and consumers. Essity's products are sold through retailers, pharmacies, online sales, distributors and resellers, with retail representing the single largest customer category. If these players are not successful in selling Essity's products, this could have a negative impact on Essity's earnings. In general, there is a consolidation trend in several of Essity's sales channels and markets – particularly in the retail trade – through mergers and purchasing alliances, which could increase dependence on individual, large customers. Digitalization is also changing customer and consumer behavior, preferences and demand.	Essity's customer structure is relatively dispersed, with customers in many different areas of business. In 2018, Essity's ten largest customers, most of them retail companies and distributors, accounted for 24% of net sales. The company works to maintain strong and long-term customer relationships in strategic customer segments, as well as building relationships with new customers. Essity is participating in the increasing digitalization trend and its impact on customers, consumers and channels, for example, through online sales. Essity also places great importance on developing processes, products and information to ensure customer satisfaction.
Production facilities	
Essity has around 90 production facilities in some 30 countries. Fires, machinery breakdowns and other types of harmful incidents in plants could lead to considerable value destruction, loss of production and income, which ultimately, could have a negative impact on Essity's market position.	From this perspective, the aim of Essity's risk management is to effectively and cost efficiently protect its employees, the environment, the company's assets and the business. Essity strives to create and retain a balance between loss-prevention activities and insurance coverage. The loss-prevention work is conducted in accordance with established guidelines that include repeated inspections by external risk engineers. Other important elements of loss-prevention activities are maintenance of production plants and machinery, staff training, and good orderliness. Essity invests continuously in loss-prevention activities to reduce its risk of damage in various ways. For example, the sites are usually protected by sprinkler systems. All wholly owned facilities are insured to replacement cost and for the loss of income. Within the EU, insurance is primarily conducted within the company's own insurance company, with external reinsurance for major damages. Outside the EU, Essity cooperates with market-leading insurance companies.
Unethical business practices	
Essity works in a large number of countries and in environments where unethical business practices and violations of human rights may occur. The risk of such business methods is deemed to be very serious. The financial consequences of violations may be very severe in the form of various sanctions and fines. Violations also risk having a negative impact on the company's reputation in the market.	Essity has a program for regulatory compliance, which aims to minimize the risk that Essity participates in or is associated with unlawful or unethical business practices or commits violations of human rights. The program is based on a Code of Conduct adopted by the Board of Directors. The Code contains policies for how the company and its employees are to behave in the workplace, in the community and in the market. Training of Essity's employees regarding the Code of Conduct takes place continuously. Within certain areas, corruption and competition regulations, Essity has an in-depth program for risk evaluation and various training courses for employees. The implementation of the regulatory compliance program is reported continuously to a committee, which includes the internal audit function and parts of the Essity management.
Employees	
To meet its targets, Essity is dependent on being able to recruit, retain and develop qualified and motivated employees.	Essity ensures access to employees with relevant competence through strategic staffing and succession planning. Essity is focusing on making the company known as an attractive employer in the markets in which it operates. Internal recruitment and rotation is facilitated through a "Job Portal", where vacant positions are advertised internally and externally. The company's ambition is that all employees should have a personal development plan focusing on both training and new challenges. Essity strives to ensure that salaries and other benefits are adapted to the market and competitive in the labor market in which the employee works. Essity is working actively to build good relationships with union organizations.

Risk	Action
Legal risks	
Legal risks comprise a number of risks in, to some extent, diverse areas. Amended legislation, violations of laws in the operations or errors in any agreements signed by Essity, are some examples of legal risks that could have negative financial implications for Essity. In certain instances, they may also result in protracted and costly legal processes.	Essity constantly monitors developments in a number of areas and addresses any legal risks that arise in cooperation with external advisers. By their nature, legal issues are often national, which means that local experts are also often engaged by Essity in various issues.
Suppliers	
Essity is dependent on a large number of suppliers. The unplanned or sudden loss of key suppliers could result in costs and disruptions to the company's production. Suppliers could also cause problems for Essity through non-compliance with applicable legislation and guidelines or by otherwise acting in an unethical manner.	Essity enters into supply contracts of various durations with a large number of different suppliers. The agreements ensure the supply of key input goods. The Group has several suppliers for essentially all important input goods. In-depth collaboration also occurs with particularly selected suppliers in the development of materials and processes. Essity continuously evaluates suppliers to ensure compliance with agreements entered into. Particular importance is placed on suppliers with operations in countries and industries deemed to be exposed to risks. The assessment of key suppliers may take the form of a questionnaire, an on-site visit or independent audit.
Information and IT	
Essity relies on IT systems for its operations. Disruptions or faults in critical systems risk having a direct impact on production and other important business processes. Errors in financial systems risk affecting the company's reporting of results.	Essity has a management model for IT that contains governance, standardized IT processes and an organization for information security. The latter works with continuous risk assessment, preventive measures and the use of security technologies. Standardized processes are in place for the implementation and change of systems and IT services and for daily operations.
Cost of input goods	
Input goods account for a considerable part of Essity's total operating expenses. The market price of input goods fluctuates over time and could influence Essity's earnings positively or negatively over time. The price trend for a number of input goods over the past ten years is presented in the diagram below.	Fiber (pulp and recovered paper) is a significant cost item, mainly in Consumer Tissue and Professional Hygiene. Price fluctuations for fiber are mainly managed through long-term relationships with suppliers and by optimizing purchasing from different regions and of varying qualities. The cost of oil-based materials is driven by the oil price trend and represents a major cost item in Personal Care and for diverse packaging materials. The oil price trend also impacts transport costs. The impact of price movements on input goods can be delayed through purchasing agreements with fixed durations. Efficiency improvements in the company's operations, changed product specifications and price increases are examples of measures to dampen the effect of rising costs for input goods. Essity's costs for input goods are described on page 130.

Highest/lowest market prices (annual average) 2008–2018 per product



Risk	Action

Energy price

Energy price risk is the risk that increased energy prices could adversely impact Essity's operating profit. Essity is exposed to price movements of electricity and natural gas, but the price of other energy commodities also directly and indirectly impacts Essity's operating profit.

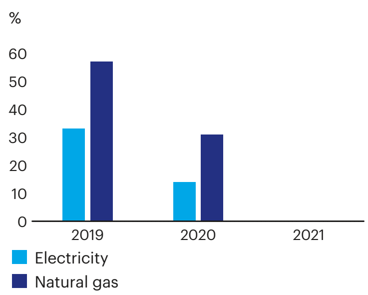
Essity centrally manages the energy price risk related to electricity and natural gas. According to Essity's energy risk policy, these price risks can be hedged for a period of up to 36 months. Energy price hedging is effected through financial instruments and fixed pricing in existing supply agreements.

Essity safeguards the supply of electricity and natural gas through centrally negotiated supply agreements. The portfolio of supply agreements and financial hedges shall be effectively spread to minimize Essity's counterparty risk.

In 2018, Essity purchased about 5 TWh (5; 5) of electricity and about 8 TWh (8; 8) of natural gas.

The graph displays Essity's price hedges in relation to forecast consumption of electricity and natural gas for the next three years. The graph includes financial hedges and hedging effected via supply agreements. For further information concerning financial price hedges, see Note E6 Derivatives and hedge accounting on page 93.

Energy price hedges in relation to forecast consumption, December 31, 2018



Currency

Transaction exposure
Transaction exposure is the risk that exchange rate movements in export revenues and import expenses could negatively impact the Group's operating profit and the cost of non-current assets.

Translation exposure
Translation exposure is the risk to which Essity is exposed when translating foreign subsidiaries' balance sheets and income statements to SEK.

Long-term currency sensitivity
The table below presents a breakdown of the Group's net sales and operating expenses by currency, which provides an overview of the Group's long-term currency sensitivity. The largest exposures are denominated in EUR, USD, CNY and GBP.

Currency	Sales %	Costs %	Adjusted EBITA[1] SEKm	Average rate 2018
EUR	39	33	11,959	10.2467
USD	15	33	−16,564	8.6731
CNY	10	5	7,267	1.3133
GBP	7	4	4,411	11.5841
MXN	4	3	1,888	0.4516
COP	3	3	550	0.0029
RUB	3	2	859	0.1389
SEK	2	5	−2,730	
Other	17	12	5,295	
Total	**100**	**100**	**12,935**	

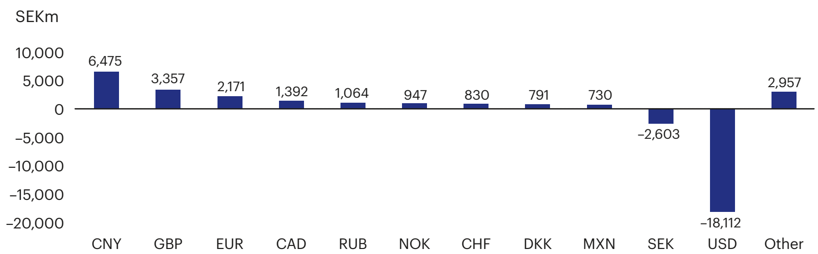
[1] Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability.

Transaction exposure
Transaction exposure, resulting from exports and imports, can be hedged for a period of up to 18 months. The currencies with the greatest net volume were hedged as follows: USD 1 month, CNY 0 months and GBP 1 month. Contracted future payments for non-current assets in foreign currencies can be hedged up to the full cost.

Most of Essity's business is conducted outside Sweden and therefore, transaction exposure primarily arises in currencies other than SEK. The largest exposure comprises a purchase requirement for USD and a selling requirement for CNY and GBP. The significant USD exposure is a consequence of the Group's purchase of pulp that is invoiced in USD.

During the year, there was continuous hedging of, primarily, trade receivables and payables, as well as future payments of non-current assets. The majority of hedges mature during the first quarter of 2019. For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting on page 93.

Forecasted net flows 2019



Translation exposure
Essity manages translation exposure by distributing the liability across various currencies where the Group owns assets so that key figures that are material for the company's credit rating are protected in the long term against exchange rate effects. Translation exposure in the income statements of foreign subsidiaries is not currency-hedged. As at December 31, 2018, net debt amounted to SEK 54,404m (52,467; 35,173). Distribution by currency is shown in the table to the right.

For further information relating to hedging of translation exposure, see Note E6 Derivatives and hedge accounting on page 93.

Net debt distributed by currency

		Percentage of net debt		
Currency	Net debt SEKm	2018 %	2017 %	2016 %
EUR	24,917	46	46	13
GBP	8,216	15	6	3
USD	7,059	13	15	15
SEK	6,150	11	19	45
CNY	3,735	7	8	11
MXN	2,334	4	3	3
HKD	1,476	3	2	4
Other	517	1	1	6
	54,404	**100**	**100**	**100**

Risk	Action

Credit

Risk

Credit risk refers to the risk of losses due to a failure to meet payment obligations by Essity's counterparties in financial agreements or by customers.

Action

Credit risk in trade receivables

Credit risk in trade receivables is managed through credit checks of customers using credit rating companies. The credit limit is set and regularly monitored. Trade receivables are recognized at the amount that is expected to be paid based on an assessment of the anticipated credit losses for the remaining lifetime of all trade receivables at the balance sheet date. For further information concerning trade receivables and recognition of anticipated credit losses, see Note E3 Trade receivables on page 91.

Financial credit risk

The objective is that counterparties must have a minimum credit rating of A–/A3 from at least two of the rating institutes Standard & Poor's, Fitch and Moody's.

Essity strives to enter into agreements that allow net calculation of receivables and liabilities. In certain cases, there are also supplementary terms to these agreements regarding the exchange of collateral.

Credit exposure in derivative instruments is calculated as the market value of the instrument on the balance sheet date. Credit exposure in derivative instruments amounted to SEK 1,255m (1,555; 1,259), gross. Taking net calculation agreements per counterparty into consideration, credit exposure of derivatives amounted to SEK 810m (1,084; 971). At year-end, the total credit exposure was SEK 4,028m (4,964; 5,214). This exposure includes credit risk of SEK 3,081m (4,107; 4,244) for financial investments. Refer to the table below for the distribution of credit risk by category.

Financial credit exposure

SEKm	Category[1] A	B	C	Total
Financial assets measured at fair value through other comprehensive income.			87	87
Financial assets measured at amortized cost			50	50
Cash and bank balances	2,268	224	516	3,008
Derivate assets, net	810			810
Current investments < 3 months			73	73
Total	**3,078**	**224**	**726**	**4,028**

[1] A: Investment grade, a long-term credit rating from one or more of the institutes of at least: Moody's (Baa3), Standard & Poor's (BBB–) and Fitch (BBB–)
B: Non-investment grade, a long-term credit rating lower than: Moody's (Baa3), Standard & Poor's (BBB–) and Fitch (BBB–)
C: No credit rating (mainly assets that lack a separate credit rating and cash and cash equivalents in regulated markets)

Liquidity and refinancing

Risk

Liquidity and refinancing risk is the risk that Essity is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising new loans.

Action

To ensure good access to loan financing, regardless of the economy and at attractive terms, Essity strives to maintain a solid investment grade rating.

Essity is to maintain financial flexibility in the form of a liquidity reserve consisting of cash and cash equivalents and unutilized credit facilities totaling at least 10% of the Group's forecast annual sales. Essity limits its refinancing risk by having a good distribution in the maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, considering unutilized credit facilities that are not liquidity reserves. Surplus liquidity should primarily be used to amortize external liabilities. Essity's policy is to not agree to terms that entitle the lender to withdraw loans or adjust interest rates as a direct consequence of movements in Essity's financial key figures or credit rating.

The Group's financing is mainly secured by bank loans, bond issues and through issuance of commercial papers. The refinancing risk in short-term borrowing is limited through long-term credit facilities from bank syndicates and individual banks with favorable creditworthiness.

Essity's net debt increased SEK 1,937m in 2018. At year-end, the average maturity of gross debt was 3.5 years (4.3; 4.0). If short-term loans were replaced with drawings under long-term unutilized credit facilities, the maturity would amount to 4.2 years. Unutilized credit facilities amounted to SEK 20,554m at year-end. In addition, cash and cash equivalents totaled SEK 3,008m. For further information, see Note E2 Financial assets, cash and cash equivalents on page 90, and Note E4 Financial liabilities on page 92.

Liquidity reserve

SEKm	2018	2017	2016
Unutilized credit facilities	20,554	19,680	19,164
Cash and cash equivalents	3,008	4,107	4,244
Total	**23,562**	**23,787**	**23,408**

SEKm	2018	2017	2016
Net sales	118,500	109,265	101,238
Liquidity reserve[1]	20%	22%	23%

[1] Liquidity reserve as a percentage of net sales.

Interest rate

Risk

Interest rate risk relates to the risk that movements in the interest rates could have a negative impact on Essity. Essity is affected by interest rate movements through its net financial income and expenses.

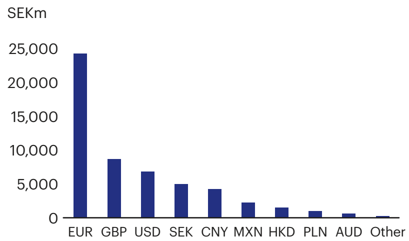
Action

Essity strives to achieve a good distribution of its interest maturity dates to avoid large debt volumes of renewals occurring at the same time. Essity's policy is to raise loans with floating rates, since it is Essity's understanding that this leads to lower interest expense over time. The interest rate risk and interest period are measured by currency and the average interest term shall be within the interval 3 to 36 months.

Essity's financial items decreased in 2018. The decrease is primarily due to lower interest rates. Higher average net debt had a negative impact on financial items during the period. Essity's largest funding currencies are EUR, GBP and USD, refer to the graph. To achieve the desired fixed interest period and currency balance, Essity uses financial derivatives. The average interest period for the gross debt, including derivatives, was 26.7 months (30.1; 8.5) at year-end.

The average interest rate for the total outstanding net debt including derivatives, amounted to 2.55% (1.83; 2.26) at year-end.

Gross debt distributed by currency



Materiality analysis

Essity conducts a materiality analysis among its stakeholders every second year. The analysis provides insight into the subject areas that are significant to the company's various stakeholders and forms the basis of the strategy and operations.

The most recent materiality analysis was conducted in 2017, when about 1,000 customers, consumers, suppliers, investors, media representatives, representatives of the community and employees responded to the online survey.

The selection of subject areas to be included in the materiality analysis was guided by such frameworks and governing documents as the Global Reporting Initiative, the UN Global Compact, Essity's Code of Conduct and other subjects considered to be material based on Essity's strategy. The survey covered a total of 21 areas.

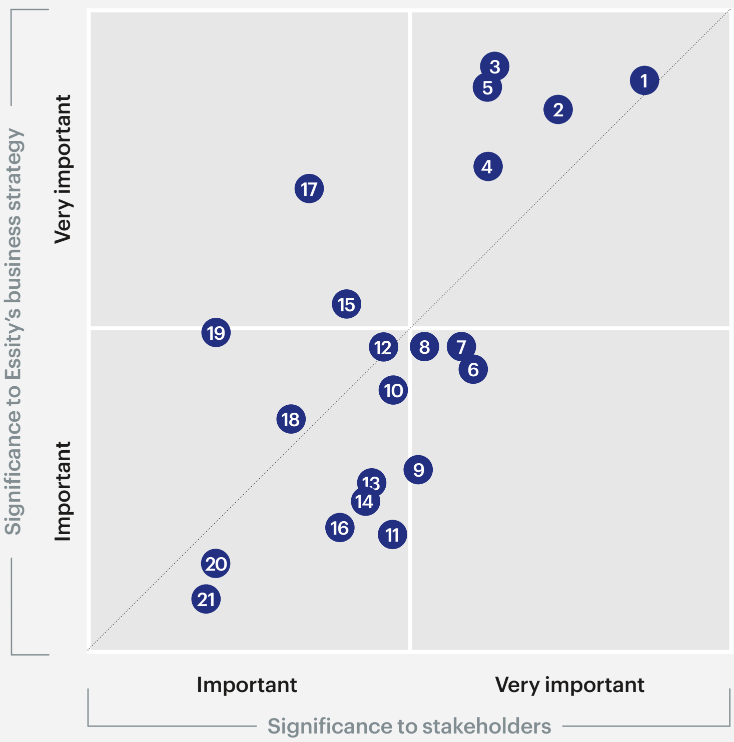
The respondents were able to select the ten areas they considered to be most important for Essity. The order of priority the respondents assigned to the areas was weighed against Essity's own assessment of how important the areas are to the company's business strategy and were then placed in the materiality analysis as coordinates. The stakeholder groups' results were weighted to provide a balanced view of the results. Essity's own assessment was based on the evaluation of the top 100 senior executives.

Both stakeholders and Essity believe that business ethics, innovation, customer and consumer satisfaction, health and safety, and strong brands are the most material areas.

The diagram below shows how the 21 areas were ranked in the survey: the horizontal X axis shows the responses of all respondents except Essity's senior executives, whose responses are shown on the Y axis. The areas are numbered according to how high they were ranked in the survey and next to the subject area, there is also a reference to where you can read more in this year's Annual and Sustainability Report.

A comprehensive account of all 21 areas included in the survey can be found at www.essity.com/sustainability.

Essity's materiality analysis



The factors considered most material to Essity's stakeholders

		Read more on page
Business ethics	**1**	120
Innovation	**2**	115
Customer and consumer satisfaction	**3**	17
Health and safety	**4**	121
Brands	**5**	1, 18
Human rights	**6**	120
Product safety	**7**	42
Openness	**8**	127–128
CO_2 emissions	**9**	116
Resource efficiency	**10**	116
Water use and water purification	**11**	117
Corporate governance	**12**	46–47
Fiber Sourcing	**13**	115–116
Value chain efficiency	**14**	119
Market positions	**15**	20–21
Post-consumer waste	**16**	118
Human capital	**17**	15
Risk management	**18**	33–38
Digitalization	**19**	9, 17
Distribution and transport	**20**	119
Tax	**21**	78–79

with global responsibility for customer and consumer brands and innovation was given greater responsibility and now also includes sustainability and public affairs. The unit is called Global Brand, Innovation and Sustainability. The head of the unit reports to the CEO and is included in the Executive Management Team. Innovation and product development are crucial for pursuing and further strengthening Essity's sustainability efforts. The sustainability reporting department has been transferred to the Group function Finance and the Compliance & Ethics department reports to the Group function Legal Affairs. In close collaboration with the business unit presidents, the approved strategy and objectives are broken down into specific targets and activities to ensure delivery on the Group's objectives and business plans. Responsibility for implementation rests with the business units.

The purposes of Essity's Compliance Council include monitoring compliance with Essity's Code of Conduct.

A number of committees and networks operate horizontally across the Group's different business units to guarantee a consistent approach. Read more about this at www.essity.com/sustainability.

Regulatory frameworks and assurance

Assurance

In addition to Essity being reviewed by external auditors, its operations are subject to external reviews and monitoring by, among others, the Swedish Financial Supervisory Authority and Nasdaq Stockholm. Third-party assurance is conducted in conjunction with, for example, life cycle assessments. Essity's own control systems include segregation of duties in critical processes and defined management responsibilities with regard to internal control. In addition to this, Essity has a separate internal audit function that continuously works to evaluate and improve the effectiveness of governance processes, risk management and internal reporting. The unit contributes to the maintenance of high standards of business ethics and is involved in the monitoring of Code of Conduct compliance, including through audits. To support its work, the internal audit unit has a number of steering documents and policies.

External regulations and internal steering documents

The regulations most relevant to Essity's sustainability governance concern emission rights trading, energy efficiency, waste management, the Industry Emission Directive (IED), general product safety, medical devices, materials for food contact, chemical substances, cosmetics, biocide products and electronics. Essity monitors the development of all relevant regulations and ensures the environmental and human safety of all its products.

Essity's Code of Conduct is the Group's steering document for responsible business operations. All of the Group's employees are subject to the Code of Conduct, which is based on international standards, including the UN Declaration of Human Rights, the ILO Core Conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact Principles and related legislation. Systematic activities, such as risk analyses, regular training, audits and other monitoring processes are in place to ensure compliance with the Code. Essity also uses the Supplier Ethical Data Exchange (Sedex) tool to make risk assessments of its production units. Sedex is a global database, in which companies share information about their production units with their customers. The information applies to the areas of labor standards, health and safety, the environment and business ethics.

All employees are regularly trained in the Code of Conduct, including human rights. In addition to this, the Code of Conduct is included in all onboarding programs across the company. Essity offers its employees a number of internal channels to report violations of legislation or the Code of Conduct. Employees also have the opportunity to use a whistleblower system managed by an external party. There is also, wherever the law permits, a possibility to report breaches anonymously. The external whistleblower system is currently available for use in some 30 countries. Essity expects its joint-venture companies to implement a Code of Conduct and guidelines equivalent to those stipulated in Essity's Code of Conduct.

The company's Code of Conduct and anticorruption policy represent the most important steering documents in the area of anticorruption. An evaluation and risk analysis of the company's anticorruption program is conducted each year. Employees in particularly vulnerable positions, as buyers and sellers, must undergo special anticorruption training, both online and through classroom instruction.

Essity's approach for ensuring respect for human rights in conjunction with the company's operations is based on the UN's Guiding Principles on Business and Human Rights (UNGP). In accordance with this framework, due diligence audits are conducted regarding the management of the company's impact on human rights. Essity has assessed the risks and impact regarding human rights using a Group-wide risk assessment that identified three main risk areas:

- Labor-related risks, including occupational health and safety, discrimination, forced labor and right to equal pay for equal work in Essity's direct and indirect operation (supply chain).
- Land and water-related risks attributable to the sourcing of timber, fiber and pulp – indigenous communities' rights should be given particular consideration where appropriate.
- Risks attributable to the waste generated in conjunction with the use of Essity's products and how that affect people and their environment.

Essity has a program for compliance with competition rules. The training program is mandatory for employees who encounter these issues during the course of their work. The program includes risk analysis, e-learning, guidelines and recurring training sessions.

Essity has established a position paper, in which the company explains its view on the following areas: animal testing, flushable products, genetically modified organisms (GMO), palm oil, tissue fiber and triclosan (biocide). The position papers are available at www.essity.com/sustainability.

Compliance and monitoring

Essity's Compliance & Ethics unit is responsible for ensuring that applicable steering documents, training and systems are in place to ensure that the company meets internal and external Code of Conduct requirements. The function also manages the company's whistleblower service.

Essity's internal audit unit monitors compliance with the Code of Conduct through audits. The operations to be audited are determined by such factors as the social and environmental risks in

5. Audit Committee

The role of the Audit Committee, without prejudice to the Board of Director's responsibility and other duties, is to monitor the company's financial reporting and provide recommendations and proposals to ensure the reliability of reporting. With regard to the financial reporting, the Committee overseas the effectiveness of the company's internal control, internal audit and risk management. The Audit Committee keeps itself continuously informed about the audit of the annual report and consolidated financial statements and where applicable about the conclusions of the quality control by the Swedish Inspectorate of Auditors concerning the company's external auditor. The Committee receives and addresses the supplementary report to the audit report concerning the conducted audit that the auditor submits in accordance with the EU Audit Regulation and Directive. The Audit Committee informs the Board of its observations and the results of the audit. The Audit Committee also examines and monitors the impartiality and independence of the auditor. In respect to this, particular attention is paid to whether the auditor is providing the company with services other than auditing services. The Committee also assesses the work of the auditor and provides proposals to the company's Nomination Committee concerning the appointment of auditor for the following mandate period.

Members of the Audit Committee are not employed by the company and at least one member has accounting or auditing expertise.

6. Remuneration Committee

The Remuneration Committee drafts the Board's motions on issues relating to remuneration principles, remuneration and other terms and conditions of employment for the President and is authorized to make decisions in these matters for the company's other senior executives. The Committee monitors and assesses programs for variable remuneration, the application of the AGM's resolution on guidelines for remuneration of senior executives and the applicable remuneration structure and remuneration levels in the Group.

7. Internal audit

The internal audit assesses and improves the effectiveness of Essity's internal governance and control as well as risk management. The internal audit reports to the Audit Committee and the Board in relation to internal audit issues. The internal auditors are geographically located throughout the world where Essity conducts operations. The internal audit examines, among other aspects, Essity's internal processes for sales, sourcing, financial reporting, IT systems, HR issues, various types of projects and compliance with Essity's internal rules, including the company's Code of Conduct. The internal audit also offers internal consultancy services in connection with internal control matters and risk management.

8. President and Executive Management Team

Essity's President and CEO is responsible for and manages the day-to-day administration of the Group and follows the Board's guidelines and instructions. The President and CEO is supported by the Executive Management Team, see pages 54–55, the work of which is led by the President. The Executive Management Team comprises the President, four Group Function Senior Vice Presidents, four Business Unit Presidents and the Presidents of the three global units. The working procedures for the Board of Directors and terms of reference issued by the Board of Directors to the President detail, for example, the division of work between the Board and President. In consultation with the Chairman and Secretary of the Board, the President prepares documentation and decision data for the Board's work.

9. Business units and global units:

Business units:

- Consumer Goods, which offers consumer tissue, baby care and feminine care in Europe, the Middle East and Africa.
- Health and Medical Solutions, which offers incontinence products in Europe, North America, the Middle East and Africa and medical solutions in Asia, Europe, North America, the Middle East and Africa.
- Latin America, which offers consumer tissue, baby care, incontinence products, medical solutions, feminine care and professional hygiene in Latin America.
- Professional Hygiene, which offers professional hygiene in Europe, North America, the Middle East and Africa.

Global units:

- Global Brand, Innovation and Sustainability has global responsibility for customer and consumer brands, innovation and sustainability and public affairs.
- Global Manufacturing has global responsibility for production and technology concerning all product categories with the exception of medical solutions.
- Global Operational Services has global responsibility for sourcing, logistics, business services, IT and digitalization.

Essity's business units adhere to the principle of distinct decentralization of responsibility and authority. The business units are fully responsible for managing and developing their respective operations through established objectives and strategies, a process that is also centrally coordinated. The business units are responsible for their operating results, capital and cash flow. The business and earnings position is followed up by the entire Executive Management Team on a monthly basis. Each quarter, business review meetings are conducted during which the management of each business unit personally meets with the President and the CFO. These meetings function as a complement to the daily monitoring of operations. Through working procedures and terms of reference, a number of issues of material significance are placed under the control of the CEO and the company's Board of Directors. Essity reports its operations according to three business areas: Personal Care, Consumer Tissue and Professional Hygiene.

Rules and regulations

Certain internal rules and regulations

- Articles of Association
- Working procedures of the Board of Directors, including instructions for the Audit Committee and the Remuneration Committee
- Terms of reference issued by the Board to the President
- Code of Conduct
- Policy documents and instructions (in areas such as finance, human resources, sustainability, internal control, communication, pension and risk management as well as for specific issues, such as the processing of personal data, insider issues, conflicts of interest, competition law, corruption and diversity)

Certain external rules and regulations

- The Swedish Companies Act
- The Swedish Annual Accounts Act
- International Financial Reporting Standards (IFRS)
- EU Market Abuse Regulation (MAR)
- Nasdaq Stockholm's rules for issuers
- Swedish Code of Corporate Governance

Compliance with stock market regulations

- Essity complies with rules that apply in Sweden for listed companies and was not sanctioned by Finansinspektionen, the stock exchange's disciplinary board or any other authority or self-regulating body for violations of the rules concerning the stock market.

More detailed information about Essity's corporate governance is available on www.essity.com

- Articles of Association
- Swedish Code of Corporate Governance
- Information from the Nomination Committee ahead of the 2019 Annual General Meeting (composition, proposals and work)
- Other information ahead of the 2019 Annual General Meeting (notice, Board proposal for principles for remuneration of senior executives, information about routines for notifying attendance at the Meeting, etc.).

Activities during the year

Annual General Meeting

Essity held its AGM in Stockholm on Thursday, April 12, 2018.

The AGM elected the company's Board of Directors. Moreover, guidelines for determining the salary and other remuneration of the President and other senior executives were adopted, see page 50 and Note C3 on pages 80–82.

Nomination Committee

Under the Swedish Corporate Governance Code, a company listed on Nasdaq Stockholm shall have a nomination committee, the purpose of which is to make proposals to the AGM in respect of the election of the Chairman of the Meeting, Board of Directors, Chairman of the Board and auditor, remuneration of each Board Member (divided between the Chairman of the Board and other Board Members), remuneration of the auditor, and where applicable, proposals for amendments to the instruction for the Nomination Committee. At the 2017 AGM, the following instructions to the Nomination Committee were adopted to apply until further notice:

"The Nomination Committee is to comprise representatives of the four largest shareholders in terms of voting rights as per the shareholders' register maintained by the company on the final banking day of August, as well as the Chairman of the Board, who also convenes the first meeting of the Nomination Committee. The member representing the largest shareholder in terms of votes is to be appointed as Chairman of the Nomination Committee. The Chairman of the Board shall not be Chairman of the Nomination Committee. If necessary, due to subsequent ownership changes, the Nomination Committee is entitled to call on one or two additional members from among the next largest shareholders in terms of voting rights. The total number of members shall be not more than seven. In the event that a member steps down from the Nomination Committee before the task is completed and the Nomination Committee decides it would be beneficial for a replacement to be appointed, such a replacement is to be appointed by the same shareholder or, if this shareholder is no longer among the largest shareholders in terms of voting rights, by the next largest shareholder in terms of voting rights. Changes to the composition of the Nomination Committee are to be disclosed immediately.

The composition of the Nomination Committee is to be announced by Essity no later than six months prior to the AGM. No remuneration is to be paid to the members of the Nomination Committee. Any expenses incurred during the work of the Nomination Committee are to be paid by Essity. The mandate period of the Nomination Committee extends until the composition of the next Nomination Committee is disclosed. The Nomination Committee is to submit proposals relating to the Chairman of the Meeting, the Board of Directors, the Chairman of the Board, Board fees for the Chairman of the Board and each of the other Board members, including remuneration for committee work, the company's auditor and auditor's fees, and to the extent deemed necessary, proposals for amendments to this instruction."

In its work, the Nomination Committee is to consider the rules that apply to the independence of Board members, as well as the requirement of diversity and breadth with the endeavor to achieve an even gender distribution and that the selection shall be based on expertise and experience relevant to Essity.

Composition of the Nomination Committee for the 2019 AGM

The composition of the Nomination Committee for the 2019 AGM is as follows:

- Helena Stjernholm, AB Industrivärden, Chairman of the Nomination Committee
- Petter Johnsen, Norges Bank Investment Management
- Stefan Nilsson, Handelsbanken Pension Funds and others
- Marianne Nilsson, Swedbank Robur Funds
- Pär Boman, Chairman of the Board, Essity

All shareholders have had an opportunity to submit proposals to the Nomination Committee. The Nomination Committee's proposal for the 2019 AGM is presented in the notice convening the AGM available on Essity's website www.essity.com. The 2019 AGM will be held on Thursday, April 4, see page 8.

The Nomination Committee was convened on four occasions prior to the 2019 AGM. The Chairman of the Board presented the Board evaluation and provided the Nomination Committee with information regarding Board and committee work during the year. When preparing proposals for the Board for the 2019 AGM, particular attention has been paid to the issues of diversity and an even gender distribution, and the Nomination Committee thus applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy. The aim was to retain gender balance on both the Board and the Board's committees. When preparing its proposal for the election of auditors, the Nomination Committee also gave consideration to the recommendation of the Audit Committee.

Board of Directors and committees

			Committees		Attendance[1)]		
Board of Directors	**Elected**	**Dependence**	**Audit**	**Remuneration**	**Board of Directors (11)**	**Audit Committee (6)**	**Remuneration Committee (4)**
Ewa Björling	2016				11/11		
Pär Boman	2016	■	x	Chairman	11/11	6/6	4/4
Maija-Liisa Friman	2016				11/11		
Annemarie Gardshol	2016				11/11		
Magnus Groth	2016	■			11/11		
Bert Nordberg	2016		x	x	11/11	6/6	4/4
Louise Svanberg	2016			x	10/11		4/4
Lars Rebien Sørensen	2017				10/11		
Barbara Milian Thoralfsson	2016		Chairman		11/11	6/6	

1) Board meetings January 1–December 31, 2018.
■ = Dependent in relation to the company's major shareholder, AB Industrivärden.
■ = President of Essity, dependent in relation to the company and the Executive Management Team.

Composition of the largest shareholders, Nomination Committee at August 31, 2018 (share of votes)

	%
AB Industrivärden	29.8
Norges Bank Investment Management	8.2
Handelsbanken's foundations, etc.	3.8
MFS Investment Management	2.7
Swedbank Robur Funds	2.6

Internal control and financial reporting

The Board's responsibility for internal governance and control is regulated in the Swedish Companies Act, the Annual Accounts Act and the Swedish Corporate Governance Code. The Annual Accounts Act requires that the company, each year, describes its system for internal control and risk management with respect to financial reporting. The Board bears the overall responsibility for financial reporting and its working procedures regulate the internal division of work between the Board and its committees.

The Audit Committee has the important task of preparing the Board's work to assure the quality of financial reporting. This preparation work includes issues relating to internal control and regulation compliance, control of recognized values, estimations, assessments and other activities that may impact the quality of the financial reports. The Committee has charged the company's auditor with the task of specifically examining the degree of compliance in the company with the rules for internal control, both general and detailed.

Financial reporting to the Board

The Board's working procedures stipulate which reports and information of a financial nature are to be submitted to the Board at each scheduled meeting. The President, together with the Chairman, ensures that the Board receives the reports required to enable the Board to continuously assess the company's and Group's financial position. Detailed instructions specifically outline the types of reports that the Board is to receive at each meeting.

Internal reporting

For a number of years now, Essity has used a shared reporting system for financial reports. An increasing number of units within Essity are also introducing the same accounting system based on a common IT platform.

Accounting and reporting for several units are, to a certain extent, conducted in Shared Service Centers. Reporting is therefore more efficient and uniform.

External financial reporting

The quality of external financial reporting is guaranteed via a number of actions and procedures. The President is responsible for ensuring that all information issued, such as press releases with financial content, presentation material for meetings with the media, owners and financial institutions, is correct and of a high quality. The responsibilities of the company's auditors include reviewing accounting issues that are critical for the financial reporting and reporting their observations to the Audit Committee and the Board of Directors. In addition to the audit of the annual accounts, a review of the half-year report and of the company's administration and internal control is carried out.

Risk management

With regard to financial reporting, the risk that material errors may be made when reporting the company's financial position and results is considered the primary risk. To minimize this risk, control documents have been established pertaining to accounting, procedures for annual accounts and follow-up of reported annual accounts. There is also a joint system for reporting annual accounts. Essity's Board of Directors and management assess the financial reporting from a risk perspective on an ongoing basis. To provide support for this assessment, the company's income statement and balance sheet items are compared with earlier reports, budgets and other planned figures. Control activities that are significant to financial reporting are carried out using the company's IT system. For further information, see the Risk and risk management section on pages 33–38.

Control activities and follow-up

Significant instructions and guidelines related to financial reporting are prepared and updated regularly by the Group Function Finance and are easily accessible on the Group's intranet. The Group Function Finance is responsible for ensuring compliance with instructions and guidelines. Process managers at various levels within Essity are responsible for carrying out the necessary control measures with respect to financial reporting. An important role is played by the business unit's controller organizations, which are responsible for ensuring that financial reporting from each unit is correct, complete and delivered in a timely manner. In addition, each business unit has a Finance Manager with responsibility for the individual business unit's financial statements. The company's control activities are supported by the budgets prepared by each business unit and updated during the year through continuous forecasts.

Essity has a standardized system of control measures involving processes that are significant to the company's financial reporting. The controls are adapted to the operational process and system structure of each unit. Accordingly, each unit prepares a record of the actual controls to be carried out in the unit in question. Control of these processes is assessed through self-evaluation followed up by an internal audit. In some cases, Essity has enlisted external help to validate these controls.

Financial results are reported and examined regularly within the management teams of the operating units and communicated to Essity's management at monthly and quarterly meetings. Before reports are issued, results are analyzed to identify and eliminate any mistakes in the process until the year-end closing. For additional information, see the Internal audit section on page 49.

The Board follows up to ensure that the internal control and reporting to the Board functions through continuous reporting from the President and CFO and through reporting from the internal audit unit in the scope of the audit plan set annually. Internal audit also continuously reports its observations in this respect to the Audit Committee. Internal audit's tasks include following up compliance with the company's internal rules, and the results of this follow-up are reported to the Board through the Audit Committee.

Group notes, cont.

F. Group structure

pages 99–104

G. Other

pages 105–107

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PC. Parent Company notes

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Contents, non-financial notes

H. Notes to non-financial information

pages 114–129

Consolidated income statement IS

Group	Note	2018 SEKm	2018 EURm[1]	2017 SEKm	2017 EURm[1]	2016 SEKm	2016 EURm[1]
Net sales	B1, B2	118,500	11,565	109,265	11,343	101,238	10,706
Cost of goods sold	B3	–85,058	–8,301	–76,899	–7,983	–72,438	–7,661
Items affecting comparability – cost of goods sold	B2, B3	–1,437	–140	–509	–53	–532	–56
Gross profit		**32,005**	**3,124**	**31,857**	**3,307**	**28,268**	**2,989**
Sales, general and administration etc.	B3	–20,570	–2,008	–19,130	–1,986	–16,965	–1,794
Items affecting comparability – sales, general and administration	B2, B3	62	6	–346	–36	–2,113	–223
Share of profits of associates and joint ventures		63	6	169	18	157	17
Operating profit before amortization of acquisition-related intangible assets (EBITA)		**11,560**	**1,128**	**12,550**	**1,303**	**9,347**	**989**
Amortization of acquisition-related intangible assets	B3	–732	–71	–560	–58	–159	–17
Items affecting comparability – acquisition-related intangible assets	B2, B3	–69	–7	–85	–9	–180	–19
Operating profit		**10,759**	**1,050**	**11,905**	**1,236**	**9,008**	**953**
Financial income	E7	91	9	158	16	202	21
Financial expenses	E7	–1,248	–122	–1,340	–139	–1,037	–109
Profit before tax		**9,602**	**937**	**10,723**	**1,113**	**8,173**	**865**
Income taxes	B5	–1,050	–102	–1,938	–201	–3,931	–416
Profit for the period		**8,552**	**835**	**8,785**	**912**	**4,242**	**449**
Earnings attributable to:							
Owners of the Parent Company		7,886	770	8,116	843	3,800	402
Non-controlling interests		666	65	669	69	442	47
Earnings per share – owners of the Parent Company							
Earnings per share before and after dilution effects		11.23	1.1	11.56	1.2	5.4[3]	0.6[3]
Dividend per share, SEK		5.75[2]		5.75			
Profit for the period attributable to owners of the Parent Company		**7,886**	**770**	**8,116**	**843**	**3,800**	**402**
Average number of shares before dilution, million		702.3		702.3		702.3[3]	
Average number of shares after dilution, million		702.3		702.3		702.3[3]	

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.25 (9.63; 9.46) was used.
2) Board proposal.
3) Indicative earnings per share on the assumption that the number of issued shares in Essity as of December 31, 2016 corresponded to the number of issued shares in Essity on December 31, 2018 (702.3 million).

Consolidated statement of comprehensive income

SEKm	2018	2017	2016
IS Profit for the period	**8,552**	**8,785**	**4,242**
Other comprehensive income for the period			
Items that may not be reclassified to the income statement			
Actuarial gains/losses on defined benefit pension plans	–1,036	1,061	–1,569
Measured at fair value through other comprehensive income	–5	–	–
Income tax attributable to components in other comprehensive income	176	–218	421
	–865	**843**	**–1,148**
Items that have been or may be reclassified subsequently to the income statement			
Available-for-sale financial assets:			
Result from measurement at fair value recognized in equity	–	0	–1
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	471	35	275
Transferred to profit or loss for the period	–378	–56	274
Transferred to cost of hedged investments	–	10	–19
Translation differences in foreign operations	2,080	320	2,742
Gains/losses from hedges of net investments in foreign operations	–122	–1,968	–437
Other comprehensive income from associates	23	–22	12
Income tax attributable to components in other comprehensive income	4	439	–41
	2,078	**–1,242**	**2,805**
Other comprehensive income for the period, net of tax	**1,213**	**–399**	**1,657**
Total comprehensive income for the period	**9,765**	**8,386**	**5,899**
Total comprehensive income attributable to:			
Owners of the Parent Company	8,893	8,029	5,222
Non-controlling interests	872	357	677

By operating segment SEKm	Net sales 2018	Net sales 2017	Net sales 2016	Adjusted EBITA[1] 2018	Adjusted EBITA[1] 2017	Adjusted EBITA[1] 2016
Personal Care	45,342	40,586	33,651	6,354	5,937	4,283
Consumer Tissue	45,125	42,014	41,560	3,331	4,084	4,450
Professional Hygiene	28,017	26,700	26,001	3,841	4,004	3,836
Other	16	–35	26	–591	–620	–577
Total	**118,500**	**109,265**	**101,238**	**12,935**	**13,405**	**11,992**

1) Excluding items affecting comparability.

Consolidated cash flow statement CF

Group	Note	2018 SEKm	2018 EURm[1)]	2017 SEKm	2017 EURm[1)]	2016 SEKm	2016 EURm[1)]
Operating activities							
IS Profit before tax		9,602	937	10,723	1,113	8,173	864
T:1 Adjustment for non-cash items		6,995	683	5,717	594	6,791	718
		16,597	**1,620**	**16,440**	**1,707**	**14,964**	**1,582**
Paid tax	B5	–2,466	–241	–2,971	–308	–3,782	–400
Cash flow from operating activities before changes in working capital		**14,131**	**1,379**	**13,469**	**1,399**	**11,182**	**1,182**
Cash flow from changes in working capital							
Change in							
Inventories		–1,017	–99	–1,703	–177	1,059	112
Operating receivables		–344	–34	1,522	158	–298	–31
Operating liabilities		390	38	–559	–58	835	88
Cash flow from operating activities		**13,160**	**1,284**	**12,729**	**1,322**	**12,778**	**1,351**
Investing activities							
Company acquisitions	F6	–461	–45	–13,070	–1,357	–4,416	–467
Divestments	F6	68	7	29	3	369	39
T:2 Investments in intangible assets and property, plant and equipment		–6,906	–675	–6,160	–640	–6,339	–670
Sale of property, plant and equipment		134	13	152	16	83	9
Loans granted to external parties		–340	–33	–287	–30	–	–
Repayment of loans from external parties		–	–	–	–	184	19
Cash flow from investing activities		**–7,505**	**–733**	**–19,336**	**–2,008**	**–10,119**	**–1,070**
Financing activities							
Private placement to non-controlling interests		5	0	28	3	435	46
Acquisition of non-controlling interests	F6	–	–	–2	0	–	–
Change, receivables from Group companies		–	–	952	99	10,403	1,100
Loans raised		4,386	428	31,037	3,222	16,148	1,708
Amortization of debt		–6,777	–661	–25,982	–2,697	–15,614	–1,651
Dividend to non-controlling interests	E8	–397	–39	–285	–30	–190	–20
Dividend	E8	–4,038	–394	–	–	–	–
Transactions with shareholders		–	–	838	87	–14,571	–1,541
Cash flow from financing activities		**–6,821**	**–666**	**6,586**	**684**	**–3,389**	**–358**
Cash flow for the period		**–1,166**	**–115**	**–21**	**–2**	**–730**	**–77**
Cash and cash equivalents, January 1[2)]		4,107	417	4244	444	4,828	529
Exchange differences in cash and cash equivalents		67	–9	–116	–25	146	–8
Cash and cash equivalents, December 31 [2)]	E2	**3,008**	**293**	**4,107**	**417**	**4,244**	**444**

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.25 (9.63; 9.46) was used.
2) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.28 (9.84; 9.56) was used.

For the Group's liquidity reserve, refer to the Risk and risk management section on page 33.

T:1 Adjustment for non-cash items

SEKm	2018	2017	2016
Depreciation/amortization and impairment of non-current assets	6,708	6,110	5,701
Gain/loss on asset sales and swaps	35	8	51
Gain/loss on divestments	–69	–17	–149
Unpaid relating to efficiency program	669	3	578
Payments relating to efficiency program already recognized	–257	–435	–196
Revaluation of previous share upon acquisition	–225	–72	–
Change in provision for ongoing competition case	95	–248	813
Change in provision for foreign tax of a non-recurring nature on non-current assets	–288	459	–
Impairment of participations in associates	278	–	–
Other	49	–91	–7
Total	**6,995**	**5,717**	**6,791**

T:2 Investments in intangible assets and property, plant and equipment

SEKm	2018	2017	2016
Measures to raise the capacity level of operations (Strategic capital expenditures)	–2,424	–2,101	–2,033
Measures to uphold capacity level (Current capital expenditures)	–4,490	–4,064	–4,306
Investments through finance leases	8	5	–
Total	**–6,906**	**–6,160**	**–6,339**

Interest paid, SEKm	2018	2017	2016
Interest paid	–842	–845	–879
Interest, Group companies	–	–	106
Interest received	85	156	78
Total	**–757**	**–689**	**–695**

Change in liabilities attributable to financing activities

SEKm	Value at January 1	Cash flow	Acquisitions	Translation differences	Measurement at fair value	Reclassi-fications	Other changes[2]	Value at December 31
2018 fiscal year								
Non-current financial liabilities	47,637	4,386	210	–4,215	–	–4,518	–	43,500
Provisions for pensions	4,541	78	2	176	598	–40[1]	–97	5,258
Current financial liabilities	7,201	–7,279	21	6,340	–	4,518	26	10,827
Assets for hedging financial liabilities included in cash flow from financing activities	–1,269	424	–	–1	–	–	–	–846
Total financial liabilities attributable to financing activities	**58,110**	**–2,391**	**233**	**2,300**	**598**	**–40**	**–71**	**58,739**
2017 fiscal year								
Non-current financial liabilities	31,299	10,255	11,113	–512	–	–4,518	–	47,637
Provisions for pensions	5,273	–729	311	–1	–1,061	748	–	4,541
Current financial liabilities	5,574	–4,479	1,617	–101	–	4,518	72	7,201
Less: current financial liability to Group companies	–485	485	–	–	–	–	–	–
Assets for hedging financial liabilities included in cash flow from financing activities	–791	–477	–	–1	–	–	–	–1,269
Total financial liabilities attributable to financing activities excluding receivables from and liabilities to Group companies	**40,870**	**5,055**	**13,041**	**–615**	**–1,061**	**748**	**72**	**58,110**
Financial receivables from Group companies	–1,436	1,437	–	–1	–	–	–	–
Current financial liability to Group companies	485	–485	–	–	–	–	–	–
Net change in financial receivables from and liabilities to Group companies	–951	952	–	–1	–	–	–	–
Total financial liabilities attributable to financing activities including receivables from and liabilities to Group companies	**39,919**	**6,007**	**13,041**	**–616**	**–1,061**	**748**	**72**	**58,110**

1) Reclassification to surplus in funded pension plans.
2) Other changes relate to change in accrued interest, change in liability related to financial leases and change in pension liability from the effect of the asset ceiling.

Correlation between consolidated cash flow statement and operating cash flow statement, supplementary disclosure

Cash flow from operating activities

SEKm	2018	2017	2016
Cash flow from operating activities	13,160	12,729	12,778
Adjustment items			
Current capital expenditures	–4,357	–3,911	–4,222
Accrued interest	–16	–73	8
Other	–	–	–1
Cash flow from current operations according to consolidated operating cash flow statement	**8,787**	**8,745**	**8,563**

Cash flow from investing activities

SEKm	2018	2017	2016
Cash flow from investing activities	–7,505	–19,336	–10,119
Adjustment items			
Current capital expenditures	4,357	3,911	4,222
Loans granted to external parties	340	287	–
Repayment of loans from external parties	–	–	–184
Net debt in acquired and divested companies	–234	–13,034	–2,124
Acquisition of non-controlling interests	–	–2	–
Investments through finance leases	–8	–5	–
Settled financial debt pertaining to acquisitions in earlier years	–	62	–
Other	–	–	1
Cash flow from strategic capital expenditures and divestments according to consolidated operating cash flow statement	**–3,050**	**–28,117**	**–8,204**

Cash flow for the period

SEKm	2018	2017	2016
Cash flow for the period	–1,166	–21	–730
Adjustment items			
Amortization of debt	6,777	25,982	15,614
Loans raised	–4,386	–31,037	–16,148
Loans granted to external parties	340	287	–
Repayment of loans from external parties	–	–	–184
Change, receivables from Group companies	–	–952	–10,403
Net debt in acquired and divested operations	–234	–13,034	–2,124
Investments through finance leases	–8	–5	–
Settled financial debt pertaining to acquisitions in earlier years	–	62	–
Accrued interest	–16	–73	8
Net cash flow according to consolidated operating cash flow statement	**1,307**	**–18,791**	**–13,967**

A1. GENERAL ACCOUNTING PRINCIPLES, NEW ACCOUNTING RULES AND BASIS OF PREPARATION, CONT.

of uncertain tax positions is to be conducted. The new interpretation will apply from January 1, 2019. A retrospective approach or a modified retrospective approach is permitted. Essity has chosen the modified retrospective approach, meaning that comparative figures are not restated. In conjunction with the 2018 annual accounts, the Group evaluated the effects of the interpretation and determined that no material changes are expected, with the exception of the reclassification of Essity's current and non-current provisions to tax liabilities in an amount of SEK 713m in the opening balance for 2019.

USE OF ASSESSMENTS KAA

The preparation of financial statements in conformity with IFRS and generally accepted Swedish accounting principles requires assessments and assumptions to be made that affect recognized asset and liability items and income and expense items, respectively, as well as other information disclosed.

These assumptions and estimates are often based on historical experience, but also on other factors, including expectations of future events. With other assumptions and estimates, the result may be different and the actual result will seldom fully concur with the estimated result.

In Essity's opinion, the areas that are impacted the most by assumptions and estimates are:
Goodwill, D1 Intangible assets, page 85
Pensions, C5 Remuneration after employment, page 82
Taxes, B5 Income taxes, page 78
Provisions, D6 Other provisions, page 88
Essity's assessments and assumptions are presented in the respective notes.

PRINCIPLES OF CONSOLIDATION

Group companies are consolidated from the date the Group exercises control or influence over the company according to the definitions provided under the respective category of Group company below. Divested Group companies are included in the consolidated accounts until the date the Group ceases to control or exercise influence over the companies. Intra-Group transactions have been eliminated.

Parent Company

The Parent Company recognizes all holdings in Group companies at cost after deduction for any accumulated impairment losses.

Subsidiaries

All companies over which Essity Aktiebolag (publ) has control are included as subsidiaries. The definition of control is that Essity has the ability to control the subsidiary, is entitled to a return and has the power to influence the activities that impact this return. The consolidated financial statements are prepared in accordance with the purchase method.

Joint arrangements

Essity classifies its joint arrangements as joint venture or joint operation. A joint venture entitles the joint owners to the net assets of the investment and is therefore recognized according to the equity method. In joint operations, parties to the agreement have rights to the assets and obligations for the liabilities associated with the investment, meaning that the operator must account for its share of the assets, liabilities, revenues and costs according to the proportional method.

Associates

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint arrangement. Normally, this means that the Group owns between 20% and 50% of the votes. Accounting for associates is carried out according to the equity method and they are initially measured at cost.

For further information, see note F3 Joint ventures and associates on page 100.

TRANSLATION OF FOREIGN CURRENCY

Functional currency and translation of foreign Group companies to the presentation currency

Essity's Parent Company has Swedish kronor (SEK) as its functional currency. The functional currency of each Essity Group company is determined on the basis of the primary economic environment in which the respective company is active which, with a few exceptions, is the country in which the individual company operates. The financial statements of Group companies are translated to the Group's presentation currency, which is SEK in the case of Essity. Assets and liabilities are translated at the closing rate, while income and expenses are translated at the average rate for the respective period. Translation differences during the period on the Group's net assets are recognized in other comprehensive income in the translation reserve as a component of equity.

Exchange rate effects arising from financial instruments used to hedge foreign subsidiaries' net assets are recognized in the same manner in other comprehensive income in the translation reserve as a component of equity. On divestment, the accumulated translation differences on the foreign subsidiary and accumulated exchange rate effects on the financial instrument used to currency hedge the net assets in the company are recognized as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising in connection with the acquisition of a foreign subsidiary are to be translated, in a manner corresponding to the net assets in the company, from their functional currency to the presentation currency.

TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCY

Transactions in foreign currency are translated to a functional currency using the rate prevailing on the transaction date. At the balance sheet date, monetary assets and liabilities in foreign currency are translated at the closing rate and any exchange rate effects are recognized in profit or loss. In cases where the exchange rate effect is related to the operations, the effect is recognized net in operating profit. Exchange rate effects pertaining to borrowing and financial investments are recognized as other financial items.

If hedge accounting has been applied, for example, for cash flow hedges or hedging of net investments, the exchange rate effect is recognized in total equity in other comprehensive income.

If a financial instrument has been classified as financial assets measured at fair value through comprehensive income, the portion of the value change pertaining to currency is recognized in profit or loss, while any other unrealized change is recognized in equity under other comprehensive income.

GOVERNMENT GRANTS

Government grants are measured at fair value when there is reasonable assurance the grants will be received and that Essity will comply with the conditions attached to them. Government grants related to acquisition of assets are recognized in the balance sheet by the grant reducing the carrying amount of the asset. Government grants received as compensation for costs are accrued and recognized in profit or loss during the same period as the costs. If the government grant or assistance is neither related to the acquisition of assets nor to compensation for costs, the grant is recognized as other income.

A2. USE OF NON-INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PERFORMANCE MEASURES

Guidelines concerning non-IFRS performance measures for companies with securities listed on a regulated market in the EU have been issued by the ESMA (The European Securities and Markets Authority). These guidelines are to be applied to alternative performance measures not supported under IFRS.

The Annual Report refers to a number of performance measures not defined in IFRS. These performance measures are used to assist investors and company management to analyze the company's operations and objectives. These non-IFRS measures may differ from similar terms used by other companies.

A description of the various non-IFRS performance measures used as a complement to the financial information reported according to IFRS is presented below.

CALCULATION OF PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

RETURN MEASURES	Return is a financial term that describes how much the value of an asset changes from an earlier point in time	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/EBITA as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations.
Adjusted return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/EBITA, excluding items affecting comparability, as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter, excluding items affecting comparability, multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations, excluding items affecting comparability.

SEKm	2018	2017	2016
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE			
EBITA	11,560	12,550	9,347
Items affecting comparability	1,375	855	2,645
Adjusted EBITA	12,935	13,405	11,992
Average capital employed	107,575	90,167	73,145
Adjusted return on capital employed, ROCE	**12.0%**	**14.9%**	**16.4%**

CAPITAL MEASURES	Shows how capital is utilized and the company's financial strength	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Return on equity	For the Group, return on equity is calculated as profit for the period as a percentage of average equity.	Shows, from a shareholder perspective, the return that is generated on the owners' capital that is invested in the company.
Adjusted return on equity	For the Group, adjusted return on equity is calculated as profit for the period, excluding items affecting comparability, as a percentage of average equity.	Shows, from a shareholder perspective, the return excluding items affecting comparability that is generated on the owners' capital that is invested in the company.
Equity	The equity reported in the consolidated balance sheet consists of taxed equity increased by the equity portion of the Group's untaxed reserves and non-controlling interests. The deferred tax liability in untaxed reserves has been calculated on the basis of the corporate tax rate that has been approved and will take effect given that the reserves are expected to be realized.	Equity is the difference between the Group's assets and liabilities, which corresponds to the Group's equity contributed by owners and the Group's accumulated profits.
Equity per share	Equity in relation to the average number of shares outstanding that exist in Essity Aktiebolag (publ).	A measure of the amount of equity that exists per share and is used for measuring the share against the share price.
Equity/assets ratio	Equity expressed as a percentage of total assets.	A traditional measure for showing financial risk, expressing the percentage of total assets that is financed by the owners.
Capital employed	The Group's and business areas' capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.	This measure shows the amount of total capital that is used in the operations and is thus one of the components for measuring the return from operations.

SEKm	2018	2017	2016
CAPITAL EMPLOYED			
Total assets	154,266	147,016	114,284
Financial assets	–5,181	–6,912	–6,973
Non-current, non-interest-bearing liabilities	–9,037	–8,650	–5,399
Current, non-interest-bearing liabilities	–30,745	–29,417	–27,159
Capital employed	**109,303**	**102,037**	**74,753**
CAPITAL EMPLOYED			
Personal Care	41,768	39,447	13,665
Consumer Tissue	44,915	43,569	40,082
Professional Hygiene	22,153	20,034	21,253
Other	467	–1,013	–247
Capital employed	**109,303**	**102,037**	**74,753**

Non-IFRS performance measure	Description	Reason for use of the measure
Capital turnover	Net sales for the year divided by average capital employed.	Shows in a clear manner how effectively capital is employed. Together with sales growth and the operating margin, the capital turnover ratio is a key measure for monitoring value creation.
Working capital	The Group's and business areas' working capital is calculated as current operating receivables less current operating liabilities.	This measure shows how much working capital that is tied up in the operations and can be put in relation to sales to understand how effectively tied-up working capital is used.

SEKm	2018	2017	2016
WORKING CAPITAL			
Inventories	15,234	13,739	10,944
Trade receivables	18,687	17,607	15,843
Other current receivables	2,599	2,549	2,390
Trade payables	–15,911	–14,748	–12,972
Other current liabilities	–12,792	–12,569	–11,863
Other	–249	–677	–199
Working capital	**7,568**	**5,901**	**4,143**

CAPITAL MEASURES, cont.	Shows how capital is utilized and the company's financial strength	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Net debt	The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less pension assets, cash and cash equivalents and interest-bearing current and non-current receivables.	Net debt is the most relevant measure for showing the company's total debt financing.

SEKm	2018	2017	2016
NET DEBT			
Surplus in funded pension plans	1,117	1,148	335
Non-current financial assets	634	552	717
Current financial assets	422	1,105	1,677
Cash and cash equivalents	3,008	4,107	4,244
Financial assets	**5,181**	**6,912**	**6,973**
Non-current financial liabilities	43,500	47,637	31,299
Provisions for pensions	5,258	4,541	5,273
Current financial liabilities	10,827	7,201	5,574
Financial liabilities	**59,585**	**59,379**	**42,146**
Net debt	**54,404**	**52,467**	**35,173**

Non-IFRS performance measure	Description	Reason for use of the measure
Debt/equity ratio	Expressed as net debt in relation to equity.	Helps show financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.
Debt payment capacity	Expressed as cash surplus in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt.
Net debt/EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA.	A financial measure that shows the company's capacity to repay its debt.
Net debt/Adjusted EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA, excluding items affecting comparability.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.
Interest coverage ratio	Calculated according to the net method where operating profit is divided by financial items.	This ratio indicates a company's ability to cover its interest expenses.

PERFORMANCE MEASURES	Various types of performance measures and margin measures expressed as a percentage of sales	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Organic net sales	The change in total organic sales for the period compared with the preceding period excluding exchange rate effects and effects from acquisitions and disposals.	This measure is of major importance for management in its monitoring of underlying net sales driven by changes in volume, price and product mix for comparable units between different periods.

SEKm	2018	2017	2016
ORGANIC NET SALES			
Personal Care			
Organic net sales	1,213	586	865
Exchange rate effects	1,173	48	–1,313
Acquisitions/Divestments	2,371	6,301	–245
Recognized change	**4,757**	**6,935**	**–693**
Consumer Tissue			
Organic net sales	1,089	231	1,110
Exchange rate effects	1,832	223	–1,207
Acquisitions/Divestments	190	0	0
Recognized change	**3,111**	**454**	**–97**
Professional Hygiene			
Organic net sales	516	411	708
Exchange rate effects	780	137	–168
Acquisitions/Divestments	22	150	2,934
Recognized change	**1,318**	**698**	**3,474**
Group			
Organic net sales	2,868	1,169	2,718
Exchange rate effects	3,785	406	–2,688
Acquisitions/Divestments	2,582	6,452	2,689
Recognized change	**9,235**	**8,027**	**2,719**

ORGANIC NET SALES, %	2018	2017	2016
Previous period sales	109,265	101,238	98,519
Organic net sales	2,868	1,169	2,718
Total organic sales for the period	112,133	102,407	101,237
Organic net sales, %	**2.6%**	**1%**	**3%**

Non-IFRS performance measure	Description	Reason for use of the measure
Adjusted gross profit	Net sales minus cost of goods sold excluding items affecting comparability.	Gross profit shows the company's earnings before the effects of selling and administrative costs. Adjusted gross profit excludes items affecting comparability.
Operating surplus margin	Operating surplus as a percentage of net sales for the year.	This measure is a complement to operating margin, as it shows the cash surplus in relation to net sales.
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets/EBITDA.	Calculated as operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets.	This measure is a complement to operating profit, as it shows the cash surplus from operations.
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets/ EBITDA.	Calculated as operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets excluding items affecting comparability.	This measure is a complement to operating profit, as it shows the cash surplus from operations adjusted for the impact of items affecting comparability.
Operating profit before amortization of acquisition-related intangible assets/EBITA	Calculated as operating profit after depreciation/amortization of tangible and intangible assets but before amortization of acquisition-related intangible assets.	The measure is a good complement to enable earnings comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth.
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA	Calculated as operating profit after depreciation/amortization of tangible and intangible assets but before amortization of acquisition-related intangible assets, excluding items affecting comparability.	The measure is a good complement to enable earnings comparisons with other companies, regardless of whether business activities were based on acquisitions or organic growth, and even adjusted for the impact of items affecting comparability.

SEKm	2018	2017	2016
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets/EBITDA.			
Operating profit	10,759	11,905	9,008
Amortization of acquisition-related intangible assets	732	560	159
Depreciation/amortization	5,443	5,162	4,906
Items affecting comparability, depreciation/amortization	0	2	79
Impairment	19	0	0
Items affecting comparability, impairment	445	301	377
Items affecting comparability, impairment of acquisition-related intangible assets	69	85	180
EBITDA	**17,467**	**18,015**	**14,709**
Items affecting comparability excluding depreciation/amortization and impairment	930	554	2,189
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets/EBITDA.	**18,397**	**18,569**	**16,898**

SEKm	2018	2017	2016
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA			
Operating profit	10,759	11,905	9,008
Amortization of acquisition-related intangible assets	732	560	159
Items affecting comparability, amortization of acquisition-related intangible assets	69	85	180
Operating profit before amortization of acquisition-related intangible assets/EBITA	**11,560**	**12,550**	**9,347**
EBITA margin	9.8%	11.5%	9.2%
Items affecting comparability, cost of goods sold	1,437	509	532
Items affecting comparability, sales, general and administration	–62	346	2,113
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA	**12,935**	**13,405**	**11,992**
Adjusted EBITA margin	10.9%	12.3%	11.8%

B. SALES AND EARNINGS

B1. NET SALES – REVENUES FROM CONTRACTS WITH CUSTOMERS

AP ACCOUNTING POLICIES AND KEY ESTIMATES AND ASSESSMENTS

From January 1, 2018, Essity applies IFRS 15 Revenue from Contracts with Customers that regulates revenue recognition and disclosure requirements for commercial agreements (contracts) with customers. The standard is applied retrospectively from the date of initial application (modified retrospective method) and pertains to commercial agreements with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently. No transitional effects arose in connection with the transition to IFRS 15, which is why equity did not need to be adjusted when the new standard was introduced and also no reclassifications were made.

Revenue recognition

Essity primarily generates revenue from the sale of finished products to, for example, the retail sector, companies, industries and the healthcare sector. Revenue from sales of services occurs to a certain extent but nevertheless accounts for a small portion of the Group's sales. Essity's operations and sales are divided into various segments that sell different products in several regions. The product portfolio is diversified but the principles for revenue recognition are the same for all segments. For a description of the products, see the section on Essity's three business areas, Personal Care, Consumer Tissue and Professional Hygiene on pages 20–27. Essity's contracts with customers primarily comprise framework agreements without established minimum volumes, which means that a binding contract according to IFRS 15 criteria does not arise until the customer places an order.

Performance obligations and timing of revenue recognition

Essity's performance obligations in the contracts involve providing the goods specified in the contracts. The performance obligations are satisfied and the revenue recognized when control of the products is passed to the customer. The timing of when control is passed to the customer is determined by the delivery terms (Incoterms) applied in the contract. For most supply contracts, control is passed when the goods have been delivered to the customer's warehouse and the customer thereby can control the use and receive the benefits of the goods. Delivery of goods and services is normally invoiced in connection with, or directly after, delivery and recognized at a specific point in time. No revenue is recognized over time. Disclosures regarding remaining performance obligations on the balance sheet date are not provided in accordance with the exemption in IFRS 15 for contracts with customers that have a term of less than one year.

Determination of transaction price

The transaction price primarily comprises the fixed price of the quantity sold less estimated volume discounts. Marketing subsidies and discount coupons exist to only a highly limited extent that reduce Essity's recognized revenue.

Volume discounts are calculated by assessing the probable discount outcome and making provisions continuously throughout the year every time the accounts are closed and are determined at year-end in accordance with the sales volume to each customer. The provision recognized as a liability is reduced in the subsequent year when the discount is credited to the customer. Marketing subsidies entail that the customer receives a discount for carrying out marketing activities. In certain cases, Essity reimburses customers in the retail sector in accordance with contracts for loss of income due to discount coupons used by consumers. The probable outcome of used discount vouchers and thus discounts provided during the reporting period is assessed and revised every time the accounts are closed. Customers have only limited rights to return products and past volumes of return products are low. Essity essential grants customers no right of return except when the products are faulty. When products are returned, a liability is recognized for the repayment that is expected to be made and an asset is recognized for the right to recover the goods from the customer when the goods are returned. Past experience is used to estimate the share of returns at the time of sale and revenue is only recognized for products that are not expected to be returned. The total transaction price is estimated at the amount that Essity deems will accrue to the company when the contract is signed with respect to volume discounts and any marketing subsidies, discount vouchers and returns. The transaction price is updated if the conditions forming the basis of the estimate have significantly changed.

Trade receivables

Once the goods and services have been delivered and control has been passed to the customer, a trade receivable is recognized since this is the point in time when the consideration becomes unconditional (only the passage of time is required for payment to be made).

Contract liabilities

Contract liabilities pertain to liabilities for volume discounts and advance payments from customers. Both items are recognized under Other current liabilities. Advance payments from customers are normally recognized as revenue in the subsequent fiscal year.

Assets that have arisen from expenses to fulfill contracts with customers

In the Professional Hygiene business area, Essity supplies dispensers to customers to fulfill contracts for delivery of the business area's other products (refer to page 27). Expenses for these dispensers are recognized as prepaid expenses under Other non-current assets under non-current assets since Essity expects to cover these expenses through the sale of the business area's other products. The dispensers are depreciated over three years according to the average term of the contract with customers. Recognition takes place in accordance with the rules in IFRS 15 since the expense is directly linked to securing contracts with customers. The rules on Property, Plant and Equipment in IAS 16 and IAS 2 Inventories are not deemed to be applicable since there are no economic benefits associated with the dispenser after it has been delivered to the customer.

The tables below show consolidated net sales broken down by operating segment: Personal Care, Consumer Tissue and Professional Hygiene. Net sales – sold to, is based on sales to the countries where Essity has its customers, known as its "footprint."

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total, Group
2018 fiscal year					
Revenue from contracts with customers					
Sale of finished products	45,333	45,125	28,011	16	118,485
Sale of services	9		6		15
IS Total revenues from contracts with customers	**45,342**	**45,125**	**28,017**	**16**	**118,500**
Geographic markets					
Europe	26,327	28,107	12,383		66,817
North America	4,788	22	11,837		16,647
Latin America	7,933	5,207	1,575		14,715
Asia	4,611	11,624	1,935		18,170
Other	1,683	165	287	16	2,151
IS Total revenues from contracts with customers	**45,342**	**45,125**	**28,017**	**16**	**118,500**

B1. REVENUE FROM CONTRACTS WITH CUSTOMERS, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total, Group
Product category					
Incontinence Products	19,355				19,355
Baby Care	9,079				9,079
Feminine Care	7,506				7,506
Medical Solutions	8,578				8,578
Consumer Tissue		45,125			45,125
Professional Hygiene			28,017		28,017
Other	824	–		16	840
IS **Total revenues from contracts with customers**	**45,342**	**45,125**	**28,017**	**16**	**118,500**

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total, Group
2017 fiscal year[1)]					
Revenue from contracts with customers					
Sale of finished products	40,580	42,014	26,696	–35	109,255
Sale of services	6		4		10
IS **Total revenues from contracts with customers**	**40,586**	**42,014**	**26,700**	**–35**	**109,265**
Geographic markets					
Europe	23,532	26,439	11,422		61,393
North America	4,200	38	12,122		16,360
Latin America	7,077	4,916	1,423		13,416
Asia	4,224	10,474	1,513		16,211
Other	1,553	147	220	–35	1,885
IS **Total revenues from contracts with customers**	**40,586**	**42,014**	**26,700**	**–35**	**109,265**
Product category					
Incontinence Products	17,885				17,885
Baby Care	8,906				8,906
Feminine Care	6,658				6,658
Medical Solutions	6,301				6,301
Consumer Tissue		42,014			42,014
Professional Hygiene			26,700		26,700
Other	836			–35	801
IS **Total revenues from contracts with customers**	**40,586**	**42,014**	**26,700**	**–35**	**109,265**

1) Comparative data is prepared according to previous accounting principles.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total, Group
2016 fiscal year[1)]					
Revenue from contracts with customers					
Sale of finished products	33,646	41,560	25,996	26	101,228
Sale of services	5	–	5	–	10
IS **Total revenues from contracts with customers**	**33,651**	**41,560**	**26,001**	**26**	**101,238**
Geographic markets					
Europe	19,933	26,777	11,129		57,839
North America	2,617	45	12,133		14,795
Latin America	6,445	4,731	1,255		12,431
Asia	3,705	9,862	1,289		14,856
Other	951	145	195	26	1,317
IS **Total revenues from contracts with customers**	**33,651**	**41,560**	**26,001**	**26**	**101,238**
Product category					
Incontinence Products	17,312				17,312
Baby Care	9,126				9,126
Feminine Care	6,440				6,440
Medical Solutions	–				–
Consumer Tissue		41,560			41,560
Professional Hygiene			26,001		26,001
Other	773			26	799
IS **Total revenues from contracts with customers**	**33,651**	**41,560**	**26,001**	**26**	**101,238**

1) Comparative data is prepared according to previous accounting principles.

Trade receivables and contractual liabilities

SEKm	Note	2018	2017	2016
TE3:1 Trade receivables	E3	18,687	17,607	15,843
Contractual liabilities – bonuses and discounts to customers	D5	4,773	4,401	4,039
Contractual liabilities – advance payments from customers		96	99	78

Trade receivables increased by SEK 1,080m in 2018, of which SEK 160m is primarily attributable to acquisitions within Familia, in which Essity owns a 50% stake, refer to Note F6 on page 103.

Assets that have arisen from expenses to fulfill contracts with customers

SEKm	2018	2017	2016
TE3:2 Value, January 1	484	506	296
Acquisitions	–	–	222[1)]
Costs for the year	358	351	295
Depreciation/amortization	–344	–328	–324
Translation differences	40	–45	17
Value, December 31	**538**	**484**	**506**

1) Asset included in the acquisition of Wausau.

B2. SEGMENT REPORTING

AP ACCOUNTING PRINCIPLES

Operating segments are recognized in a manner that complies with the internal reporting submitted to the chief operating decision maker. The chief operating decision maker is the function that is responsible for allocating resources and assessing the result of the operating segments. At Essity, this function has been identified as the company's President, who is responsible for and manages the day-to-day administration of the Group in accordance with the Board's guidelines and terms of reference. One Executive Vice President and the Executive Management Team support him in his work. Essity's three business areas, Personal Care, Consumer Tissue and Professional Hygiene, comprise the operating segments. For management purposes, the Group is organized into business areas based on their products.

Personal Care's offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Products are sold under brands including Jobst, Leukoplast, Libero, Libresse, Nosotras, Saba and the globally leading brand TENA, and as retailer brands. Distribution channels for the products are the retail trade, online sales, pharmacies and care institutions.

Consumer Tissue's offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Products are sold under brands including Edet, Lotus, Regio, Tempo, Vinda and Zewa, and as retailer brands. Distribution channels for the products are the retail trade and online sales.

Professional Hygiene's offering, with the globally leading brand Tork, comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, IoT sensor technology as well as service and maintenance. Professional hygiene customers consist of companies and office buildings, universities, healthcare facilities, industries, restaurants, hotels, stadiums and other public venues. Distribution channels for the products consist of distributors and online sales.

Other operations comprise Group-wide functions and non-allocated tax.

Essity's business is an integrated operation in the form of a matrix organization with four business units (Health and Medical Solutions, Consumer Goods, Latin America and Professional Hygiene) and three global units (Global Manufacturing, Global Operational Services and Global Brand, Innovation and Sustainability). The business units have limited responsibility to impact operational costs, since the global units are responsible for production, planning, technology development, purchasing and product development. Accordingly, the business unit manager's main tasks are to address the markets from a sales perspective.

No business segments were aggregated to form the aforementioned segments.

The President monitors the operating profit for the business areas separately in order to make decisions regarding the allocation of resources and how performance targets were achieved. The segments are evaluated based on the income statement and are measured in the corresponding manner as for the income statement in the consolidated accounts.

The tables below show parts of the consolidated balance sheet and income statement broken down by operating segment: Personal Care, Consumer Tissue and Professional Hygiene.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2018 fiscal year						
REVENUES						
IS TB2:2 **Net sales**	**45,342**	**45,125**	**28,017**	**16**		**118,500**
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**6,354**	**3,331**	**3,841**	**–591**	**–**	**12,935**
Amortization of acquisition-related intangible assets	–691	–5	–36	–	–	–732
Adjusted operating profit/loss per operating segment	**5,663**	**3,326**	**3,805**	**–591**	–	**12,203**
TB2:1 Items affecting comparability	–123	–1,046	–494	219	–	–1,444
IS **Operating profit/loss**	**5,540**	**2,280**	**3,311**	**–372**	–	**10,759**
IS Financial income						91
IS Financial expenses						–1,248
IS Tax expense for the period						–1,050
IS **Profit for the period**						**8,552**
OTHER DISCLOSURES						
Assets	57,688	61,020	30,768	5,071	–6,239	148,308
BS Participations in joint ventures and associates	196	486	94	1	–	777
Unallocated financial assets				5,181		5,181
BS **Total assets**	**57,884**	**61,506**	**30,862**	**10,253**	**–6,239**	**154,266**
Investments/acquisitions	–2,567	–3,460	–1,345	–237	–	–7,609
Depreciation/amortization	–2,126	–2,287	–1,643	–119	–	–6,175
Expenses, in addition to depreciation/amortization, not matched by payments	29	36	194	–23	–	236
NET SALES BY REGION						
Europe	58%	62%	44%			56%
North America	11%	–	42%			14%
Latin America	17%	12%	6%			13%
Asia	10%	26%	7%			15%
Other	4%	–	1%			2%
Total	**100%**	**100%**	**100%**			**100%**
Mature markets	64%	56%	81%			65%
Emerging markets	36%	44%	19%			35%
Total	**100%**	**100%**	**100%**			**100%**

B2. SEGMENT REPORTING, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2017 fiscal year						
REVENUES						
IS TB2:2 **Net sales**	**40,586**	**42,014**	**26,700**	**–35**		**109,265**
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**5,937**	**4,084**	**4,004**	**–620**	**–**	**13,405**
Amortization of acquisition-related intangible assets	–506	–6	–48	–	–	–560
Adjusted operating profit/loss per operating segment	**5,431**	**4,078**	**3,956**	**–620**	**–**	**12,845**
TB2:1 Items affecting comparability	–457	135	–160	–458	–	–940
IS **Operating profit/loss**	**4,974**	**4,213**	**3,796**	**–1,078**	–	**11,905**
IS Financial income						158
IS Financial expenses						–1,340
IS Tax expense for the period						–1,938
IS **Profit for the period**						**8,785**
OTHER DISCLOSURES						
Assets	54,468	58,200	28,076	3,706	–5,407	139,043
BS Participations in joint ventures and associates	273	589	174	26	–	1,062
Unallocated financial assets	–	–	–	6,911	–	6,911
BS **Total assets**	**54,741**	**58,789**	**28,250**	**10,643**	**–5,407**	**147,016**
Investments/acquisitions	–28,156	–2,974	–894	–185	–	–32,209
Depreciation/amortization	–1,815	–2,134	–1,669	–106	–	–5,724
Expenses, in addition to depreciation/amortization, not matched by payments	48	21	67	–69	–	67
NET SALES BY REGION						
Europe	58%	63%	43%			56%
North America	10%	–	45%			15%
Latin America	18%	12%	5%			12%
Asia	10%	25%	6%			15%
Other	4%	–	1%			2%
Total	**100%**	**100%**	**100%**			**100%**
Mature markets	63%	56%	82%			65%
Emerging markets	37%	44%	18%			35%
Total	**100%**	**100%**	**100%**			**100%**

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2016 fiscal year						
REVENUES						
IS TB2:2 **Net sales**	**33,651**	**41,560**	**26,001**	**26**	**–**	**101,238**
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**4,283**	**4,450**	**3,836**	**–577**	**–**	**11,992**
Amortization of acquisition-related intangible assets	–28	–68	–63	–	–	–159
Adjusted operating profit/loss per operating segment	**4,255**	**4,382**	**3,773**	**–577**	**–**	**11,833**
TB2:1 Items affecting comparability	–1,011	–944	–871	1	–	–2,825
IS **Operating profit/loss**	**3,244**	**3,438**	**2,902**	**–576**	**–**	**9,008**
IS Financial income						202
IS Financial expenses						–1,037
IS Tax expense for the period						–3,931
IS **Profit for the period**						**4,242**
OTHER DISCLOSURES						
Assets	22,483	55,180	29,905	3,305	–4,658	106,215
BS Participations in joint ventures and associates	346	599	196	–45	–	1,096
Unallocated financial assets				6,973		6,973
BS **Total assets**	**22,829**	**55,779**	**30,101**	**10,233**	**–4,658**	**114,284**
Investments/acquisitions	–2,207	–2,420	–7,989	–313	–	–12,929
Depreciation/amortization	–1,077	–2,040	–1,702	–87	–	–4,906
Expenses, in addition to depreciation/amortization, not matched by payments	8	32	17	–38	–	19
NET SALES BY REGION						
Europe	59%	65%	43%			57%
North America	8%	–	46%			15%
Latin America	19%	11%	5%			12%
Asia	11%	24%	5%			15%
Other	3%	–	1%			1%
Total	**100%**	**100%**	**100%**			**100%**
Mature markets	59%	58%	84%			65%
Emerging markets	41%	42%	16%			35%
Total	**100%**	**100%**	**100%**			**100%**

B2. SEGMENT REPORTING, CONT.

TB2:1 Items affecting comparability allocated by segment

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other	Total
2018 fiscal year					
Items affecting comparability – cost of goods sold	–157	–812	–468	–	–1,437
Items affecting comparability – sales, general and administration	116	–248	–26	220	62
Items affecting comparability – acquisition-related intangible assets	–82	14	–	–1	–69
Total	**–123**	**–1,046**	**–494**	**219**	**–1,444**
2017 fiscal year					
Items affecting comparability – cost of goods sold	–272	81	–318	–	–509
Items affecting comparability – sales, general and administration	–102	54	160	–458	–346
Items affecting comparability – acquisition-related intangible assets	–83	–	–2	–	–85
Total	**–457**	**135**	**–160**	**–458**	**–940**
2016 fiscal year					
Items affecting comparability – cost of goods sold	–109	–239	–186	2	–532
Items affecting comparability – sales, general and administration	–836	–705	–570	–2	–2,113
Items affecting comparability – acquisition-related intangible assets	–66	–	–115	1	–180
Total	**–1,011**	**–944**	**–871**	**1**	**–2,825**

Assets and liabilities: The assets included in each operating segment comprise all operating assets used in the operating segment, primarily trade receivables, inventories and non-current assets after deduction for operating liabilities and provisions. Most of the assets are directly attributable to each operating segment. Assets that are common to two or more operating segments are allocated among the operating segments.

Internal sales: No internal sales are carried out between the segments. Production in shared facilities is allocated among the segments already at the operational reporting stage.

Customers: Essity had no customers in 2018, 2017 or 2016 from which it generated income that accounted for more than 10% of the company's net sales. Essity's ten largest customers account for 23.6% (22.9; 26.6) of the company's sales.

B2b. SEGMENT REPORTING, CONT.

	Net sales – sold to[1]						Net sales – sold by[1]					
	2018		2017		2016		2018		2017		2016	
TB2:2 Group by country	**SEKm**	**%**	**SEKm**	**%**	**SEKm**	**%**	**SEKm**	**%**	**SEKm**	**%**	**SEKm**	**%**
Sweden	**2,636**	**2**	**2,518**	**2**	**2,501**	**2**	**3,143**	**2**	**2,908**	**3**	**2,742**	**3**
EU excl. Sweden												
Germany	13,115	11	11,400	11	9,927	10	13,713	12	11,956	11	10,446	10
France	10,234	9	9,510	9	9,079	9	10,491	9	9,721	9	9,212	9
UK	8,421	7	7,832	7	8,267	8	8,492	7	7,865	7	8,276	8
Spain	6,005	5	5,665	5	5,489	5	6,087	5	5,748	5	5,622	6
Netherlands	3,696	3	3,286	3	2,965	3	3,892	3	3,503	3	3,235	3
Italy	3,541	3	3,236	3	2,913	3	3,907	3	3,636	3	3,224	3
Austria	1,824	2	1,713	2	1,563	2	2,003	2	1,802	2	1,679	2
Belgium	1,589	1	1,467	1	1,433	1	1,696	1	1,560	1	1,521	2
Finland	1,531	1	1,435	1	1,430	1	1,520	1	1,456	1	1,467	1
Denmark	1,151	1	995	1	930	1	1,098	1	967	1	953	1
Hungary	1,057	1	916	1	795	1	1,075	1	943	1	850	1
Poland	918	1	792	1	727	1	971	1	820	1	694	1
Czech Republic	633	1	570	1	534	1	607	1	546	0	503	0
Greece	536	1	583	1	573	1	345	1	344	0	384	0
Ireland	502	1	441	0	422	0	430	1	387	0	387	0
Portugal	392	0	358	0	360	0	332	0	299	0	257	0
Romania	377	0	313	0	265	0	346	0	309	0	272	0
Croatia	318	0	273	0	274	0	–	–	–	–	–	–
Slovakia	270	0	272	0	242	0	479	0	427	0	388	0
Lithuania	206	0	187	0	182	0	206	0	187	0	182	0
Rest of EU excl. Sweden	709	1	700	1	673	1	296	0	293	0	307	0
Total EU excl. Sweden	**57,025**	**48**	**51,944**	**48**	**49,043**	**48**	**57,986**	**49**	**52,769**	**48**	**49,859**	**49**
Rest of Europe												
Russia	3,225	3	3,209	3	2,879	3	3,440	3	3,443	3	3,061	3
Switzerland	1,347	1	1,299	1	1,231	1	1,295	1	1,252	1	1,195	1
Norway	1,271	1	1,184	1	1,111	1	1,211	1	1,144	1	1,117	1
Turkey	556	1	595	1	486	0	601	1	663	1	537	1
Ukraine	338	0	288	0	291	0	298	0	255	0	264	0
Rest of Europe, excl. EU	419	0	356	0	297	0	–	–	–	–	–	–
Total, Rest of Europe	**7,156**	**6**	**6,931**	**6**	**6,295**	**6**	**6,845**	**6**	**6,757**	**6**	**6,174**	**6**
TOTAL EUROPE	**66,817**	**56**	**61,393**	**56**	**57,839**	**57**	**67,974**	**57**	**62,434**	**57**	**58,775**	**58**
North America												
US	14,617	12	14,422	13	13,115	13	14,681	12	14,449	13	13,324	13
Canada	2,024	2	1,933	2	1,676	2	2,046	2	1,958	2	1,525	2
Rest of North America	6	0	5	0	4	0	–	–	–	–	–	–
TOTAL NORTH AMERICA	**16,647**	**14**	**16,360**	**15**	**14,795**	**15**	**16,727**	**14**	**16,407**	**15**	**14,849**	**15**
Latin America												
Mexico	4,822	4	4,223	4	4,015	4	5,355	5	4,736	4	4,509	4
Colombia	3,955	3	3,765	4	3,433	3	4,155	4	4,352	4	3,978	4
Ecuador	1,510	1	1,332	1	1,291	1	1,486	1	1,315	1	1,291	1
Chile	1,018	1	1,105	1	1,022	1	1,013	1	1,096	1	1,015	1
Brazil	606	1	658	1	460	0	605	1	658	1	460	0
Costa Rica	476	1	476	0	495	0	472	0	479	0	499	0
Peru	462	0	241	0	252	0	425	0	16	0	12	0
Dominican Republic	431	0	265	0	255	0	419	0	109	0	121	0
Argentina	374	1	410	0	345	0	386	0	417	0	372	0
Nicaragua	172	0	170	0	159	0	–	–	–	–	0	0
Rest of Latin America	889	1	771	1	704	1	235	0	105	0	94	–
TOTAL LATIN AMERICA	**14,715**	**13**	**13,416**	**12**	**12,431**	**12**	**14,551**	**12**	**13,283**	**12**	**12,351**	**12**
Asia												
China	12,371	10	10,982	10	10,089	10	12,178	10	10,843	10	11,272	11
Malaysia	1,544	1	1,326	1	1,292	1	1,858	2	1,631	1	1,679	2
Hong Kong	1,171	1	1,104	1	1,109	1	1,509	1	1,358	1	–	–
Japan	852	1	757	1	653	1	699	1	653	1	574	1
Taiwan	364	1	352	1	333	0	373	1	362	0	378	0
Singapore	240	0	216	0	206	0	202	0	185	0	183	0
India	222	0	182	0	163	0	219	0	180	0	163	0
Rest of Asia	1,406	1	1,292	1	1,011	1	670	1	533	0	272	0
TOTAL ASIA	**18,170**	**15**	**16,211**	**15**	**14,856**	**15**	**17,708**	**16**	**15,745**	**15**	**14,521**	**14**
Rest of the world												
South Africa	326	1	264	0	121	0	435	0	356	0	79	0
Tunisia	262	0	252	0	305	0	447	0	497	0	546	1
Libya	142	0	187	0	–	–	–	–	–	–	–	–
Morocco	139	0	107	0	107	0	68	0	51	0	43	0
Other rest of the world	1,282	1	1,075	2	784	1	590	1	492	0	74	0
TOTAL, REST OF THE WORLD	**2,151**	**2**	**1,885**	**2**	**1,317**	**1**	**1,540**	**1**	**1,396**	**1**	**742**	**1**
Total, Group	**118,500**	**100**	**109,265**	**100**	**101,238**	**100**	**118,500**	**100**	**109,265**	**100**	**101,238**	**100**

[1] Net sales have been recognized from two perspectives. The first column "Net sales – sold to" is based on sales to the countries where Essity has its customers, or Essity's "footprint". The second column "Net sales – sold by" takes the perspective of IFRS 8, meaning revenue from external customers where the company is domiciled and in all other countries from which the company receives revenues.

B2c. SEGMENT REPORTING, CONT.

TB2:2 Group by country	Average number of employees 2018	Of whom men, %	Of whom women, %	2017	Of whom men, %	Of whom women, %	2016	Of whom men, %	Of whom women, %	Non-current assets[1] 2018 SEKm	2017 SEKm	2016 SEKm
Sweden	**2,062**	**55**	**45**	**2,075**	**56**	**44**	**1,990**	**56**	**44**	**2,331**	**2,648**	**5,294**
EU excl. Sweden					–	–						
Germany	4,513	74	26	4,194	75	25	3,368	81	19	22,346	18,537	6,376
France	2,619	68	32	2,619	69	31	2,470	75	25	8,517	9,580	5,254
UK	1,614	76	24	1,589	77	23	1,505	81	19	5,166	5,209	4,160
Spain	1,242	75	25	1,213	75	25	1,182	75	25	3,646	3,826	3,707
Netherlands	1,256	82	18	1,269	82	18	1,198	84	16	2,695	2,915	2,187
Slovakia	937	63	37	953	63	37	746	71	29	1,053	1,116	652
Italy	860	75	25	869	76	24	851	77	23	3,001	3,263	2,567
Poland	826	72	28	742	71	29	687	71	29	1,864	1,468	1,081
Austria	610	81	19	624	82	18	616	82	18	707	819	728
Belgium	474	79	21	419	78	22	374	79	21	629	731	465
Finland	300	74	26	311	73	27	311	72	28	773	803	811
Hungary	134	42	58	138	43	57	134	42	58	3,211	6	6
Denmark	96	40	60	95	38	62	91	36	64	3	3	3
Czech Republic	62	46	54	65	42	58	67	37	63	1	1	1
Greece	49	54	46	51	55	45	53	55	45	11	11	14
Romania	33	36	64	32	38	62	31	39	61	14	–	10
Lithuania	25	48	52	25	48	52	25	48	52	–	–	–
Portugal	22	57	43	22	55	45	21	52	48	75	72	71
Ireland	14	64	36	14	64	36	15	67	33	29	28	27
Croatia	12	35	65	11	36	64	9	33	67	–	13	–
Rest of EU excl. Sweden	17	22	78	24	17	83	22	18	82	–	–	–
Total EU excl. Sweden	**15,715**	**73**	**27**	**15,279**	**73**	**27**	**13,776**	**77**	**23**	**53,741**	**48,401**	**28,120**
Rest of Europe												
Russia	1,346	61	39	1,391	60	40	1,374	60	40	1,468	1,709	1,817
Turkey	231	81	19	235	81	19	235	80	20	187	333	402
Norway	111	41	59	107	38	62	104	38	62	2	2	2
Ukraine	68	44	56	69	48	52	68	47	53	5	5	4
Switzerland	34	35	65	38	34	66	30	37	63	65	201	88
Rest of Europe, excl. EU	4	–	100	–	–	–	–	–	–	–	–	–
Total, Rest of Europe	**1,794**	**62**	**38**	**1,840**	**61**	**39**	**1,811**	**60**	**40**	**1,727**	**2,250**	**2,313**
TOTAL EUROPE	**19,571**	**70**	**30**	**19,194**	**70**	**30**	**17,577**	**73**	**27**	**57,799**	**53,299**	**35,727**
North America												
US	3,473	71	29	3,588	73	27	3,376	76	24	18,478	17,400	14,686
Canada	345	61	39	325	62	38	283	65	35	563	591	261
Rest of North America	–	–	–	–	–	–	–	–	–	–	–	–
TOTAL NORTH AMERICA	**3,818**	**70**	**30**	**3,913**	**72**	**28**	**3,659**	**75**	**25**	**19,041**	**17,991**	**14,947**
Latin America												
Colombia	3,703	68	32	3,718	72	28	3,561	69	31	2,037	2,516	2,104
Mexico	3,060	70	30	2,871	69	31	2,389	76	24	4,510	3,968	3,370
Ecuador	1,171	65	35	1,068	66	34	1,104	66	34	613	279	305
Brazil	781	60	40	784	59	41	507	62	38	718	1,383	816
Chile	468	74	26	622	77	23	596	80	20	679	973	884
Argentina	335	63	37	359	60	40	345	60	40	60	53	69
Dominican Republic	261	65	35	141	68	32	115	73	27	246	158	10
Peru	131	26	74	15	53	47	12	50	50	400	–	–
Costa Rica	91	56	44	87	51	49	89	54	46	2	2	3
Nicaragua	4	38	62	6	17	83	8	37	63	–	–	1
Rest of Latin America	46	49	51	23	39	61	23	52	48	2	–	1
TOTAL LATIN AMERICA	**10,051**	**67**	**33**	**9,694**	**68**	**32**	**8,749**	**70**	**30**	**9,267**	**9,332**	**7,563**
Asia												
China	9,450	57	43	9,457	56	44	8,957	55	45	15,797	14,219	13,022
Malaysia	1,307	43	57	1,351	45	55	1,399	45	55	912	814	845
India	449	86	14	429	87	13	229	96	4	75	616	–
Taiwan	268	61	39	265	57	43	268	56	44	649	602	602
Japan	148	42	58	142	39	61	99	21	79	36	421	4
Hong Kong	83	24	76	85	26	74	75	39	61	638	1,108	1,323
Singapore	30	32	68	32	34	66	30	30	70	11	11	9
Rest of Asia	386	56	44	294	58	42	60	43	57	685	973	171
TOTAL ASIA	**12,121**	**56**	**44**	**12,055**	**55**	**45**	**11,117**	**54**	**46**	**18,803**	**18,764**	**15,976**
Rest of the world												
Tunisia	922	89	11	920	88	12	894	88	12	116	805	170
South Africa	437	43	57	330	41	59	20	35	65	725	–	3
Morocco	62	55	45	56	52	48	13	46	54	–	1	1
Libya	–	–	–	–	–	–	–	–	–	–	139	–
Other rest of the world	240	58	42	223	64	36	120	91	9	950	1,272	25
TOTAL, REST OF THE WORLD	**1,661**	**71**	**29**	**1,529**	**73**	**27**	**1,047**	**87**	**13**	**1,791**	**2,217**	**199**
Total, Group	**47,222**	**66**	**34**	**46,385**	**66**	**34**	**42,149**	**68**	**32**	**106,701**	**101,603**	**74,412**

1) Non-current assets comprise goodwill, other intangible assets, buildings, land, machinery and equipment.

B5. INCOME TAXES

AP ACCOUNTING PRINCIPLES

The Group's tax expense comprises current tax and deferred tax.

Current tax is calculated on the taxable profit for the period based on the tax rules prevailing in the countries where the Group operates. Since taxable profit excludes costs that are not tax deductible and income that is not taxable, this is differentiated from profit before tax in profit or loss. Current tax also includes adjustments relating to recognized current tax from prior periods. Interest attributable to income tax and withholding taxes deducted at source on intra-Group transactions are also recognized as current income tax.

Deferred tax is calculated based on temporary differences between the carrying amounts and the taxable values of assets and liabilities and for tax loss carryforwards and other unutilized tax deductions in so far as it is probable that these can be utilized against future taxable profits. Deferred taxes are measured in the balance sheet at their nominal amount and based on the tax rates enacted or substantively enacted on the balance sheet date. Deferred tax is not calculated on the initial recognition of goodwill or when an asset or liability is recognized for the first time, provided that the asset or liability is not attributable to a business combination. Essity does not recognize any deferred tax liability regarding temporary differences on undistributed earnings in holding in subsidiaries, joint ventures or associates, since Essity can control the reversal of the temporary differences and it is probable that such a reversal will not take place in the foreseeable future.

The recognition of tax effects is determined by the manner in which the underlying transaction is recognized. For items in profit or loss, the tax effect is recognized in profit or loss, with the same applying for transactions in other comprehensive income within equity, whereby the tax effect is subsequently recognized in other comprehensive income within equity.

Tax liabilities and tax assets are recognized net when Essity has a legal right to offset.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

For companies that operate globally and thus apply significantly different taxation legislation, determining deferred tax asset and tax liability is very complicated. This requires that assessments and assumptions are made to determine the value of the deferred tax asset and deferred tax liability on the balance sheet date. Future changes to taxation legislation and trends in the business climate will impact the company's future taxable profits and thus its possibility to utilize deferred tax assets on loss carryforwards or other temporary differences. Accordingly, a changed assessment of the probability of future taxable profits could have a positive or negative effect.

Key assessments and assumptions are also made regarding recognition of provisions and contingent liabilities relating to tax risks. For further information, see Note D6 Other provisions on page 88 and Note G3 Contingent liabilities and pledged assets on page 106.

Tax expense

Tax expense (+), tax income (–)

SEKm	2018	%	2017	%	2016	%
Current tax						
Income tax for the period	2,207	23.0	2,927	27.3	2,888	35.3
Adjustments for prior periods	–1,324	–13.8	–112	–1.0	1,654	20.2
Current tax expense	**883**	**9.2**	**2,815**	**26.3**	**4,542**	**55.5**
Deferred tax						
Changes in temporary differences	226	1.9	–759	–7.1	–509	–6.2
Adjustments for prior periods	37	–0.8	77	0.7	–387	–4.7
Revaluations	–96	0.6	–195	–1.8	285	3.5
TB5:2 TB5:3 **Deferred tax expense**	**167**	**1.7**	**–877**	**–8.2**	**–611**	**–7.4**
IS **Tax expense**	**1,050**	**10.9**	**1,938**	**18.1**	**3,931**	**48.1**

Explanation of tax expense

The difference between the recognized tax expense and expected tax expense is explained below. The expected tax expense is calculated based on profit before tax in each country multiplied by the tax rate in effect in the country.

Tax expense

SEKm	2018	%	2017	%	2016	%
IS Profit before tax	9,602		10,723		8,173	
IS Tax expense	1,050	10.9	1,938	18.1	3,931	48.1
Expected tax expense	2,144	22.3	2,381	22.2	1,790	21.9
Difference	**–1,094**	**–11.4**	**–443**	**–4.1**	**2,141**	**26.2**
The difference is explained by:						
Permanent differences between accounting and taxable result						
Effects of subsidiary financing[1]	–35	–0.4	–303	–2.8	–152	–1.9
Effects of acquisitions and divestments[2]	–106	–0.9	2	0.0	53	0.6
Taxes relating to profit-taking	42	0.4	35	0.3	37	0.5
Other permanent effects[3]	272	2.3	147	1.4	372	4.6
Taxes related to prior periods[4]	–1,287	–14.5	–35	–0.3	1,267	15.5
Changes in the value of deferred tax assets[5]	60	2.1	311	2.9	670	8.2
Changes in tax rates[6]	–40	–0.4	–600	–5.6	–106	–1.3
Total	**–1,094**	**–11.4**	**–443**	**–4.1**	**2,141**	**26.2**

1) The effects are principally attributable to financing of the operations in the US, Germany, France and Belgium. For 2017, the effects relate to financing of the US business and include non-recurring effects of the restructuring of debt from the Netherlands to the US.
2) The effects of acquisitions and divestments relate essentially to acquisitions and the revaluation of existing holdings in operations pertaining to Peru and Bolivia.
3) Other permanent effects include, in addition to a number of items of low value, a non-deductible share in profit in Asaleo Care of SEK 97m primarily attributable to an impairment of assets, and dissolution effects of tax on non-current assets of SEK –57m. For 2017, the item includes non-deductible costs for tax on non-current assets of SEK 67m that arose in connection with the split of the SCA Group. The year 2016 relates primarily to non-deductible costs for ongoing competition cases.
4) Taxes attributable to prior periods relate mainly to the effect of a tax dispute in Sweden totaling SEK –1,110m and a tax dispute in Denmark totaling SEK –417m in which the final rulings were in Essity's favor. In 2016, a provision of SEK 1,223m was recognized for costs related to the tax dispute in Sweden.
5) The change in value of deferred tax assets relates mainly to uncapitalized tax loss carryforwards in Brazil of SEK 98m and in Mexico of SEK 41m, as well as the increase in a tax credit in Poland of SEK –109m. The change in 2017 relates mainly to the revaluation of loss carryforwards in the US of SEK 139m and in Brazil of SEK 156m. The change in 2016 relates mainly to the revaluation of loss carryforwards in Spain of SEK 227m, in Brazil of SEK 185m and in India of SEK 213m.
6) Effects relating to changed tax rates are attributable to the revaluation of deferred taxes, especially in Sweden, France and the UK. For 2017, the effects are primarily attributable to the revaluation of deferred taxes in the US.

B5. INCOME TAXES, CONT.

Current tax liability

Current tax liability (+), current tax asset (–)

SEKm	2018	2017	2016
Value, January 1	**–216**	**175**	**–60**
TB5:1 Current tax expense	883	2,815	4,542
CF TB5:1 Paid tax	–2,466	–2,971	–3,782
Other changes from acquisitions, divestments and reclassifications	240	–50	–154
Transactions with shareholders	0	–194	–366
Translation differences	3	9	–5
Value, December 31	**–1,556**	**–216**	**175**
BS of which current tax liability	570	553	915
BS of which current tax asset	2,126	769	740

TB5:1 Tax by country

Tax expense (+), tax income (–)
Tax payments made by entities in different countries, paid tax (–), SEKm

Country	Current tax expense	Deferred tax expense	Total tax expense	Paid tax
Germany	492	16	508	–382
US	30	330	360	–5
Colombia	159	8	167	–287
Mexico	144	23	167	–163
Italy	95	30	125	–88
Hong Kong	97	2	99	–78
Belgium	106	–22	84	–100
Ecuador	85	–2	83	–66
Russia	71	5	76	–58
Austria	69	0	69	–127
UK	–40	103	63	5
Malaysia	52	–2	50	–58
Finland	56	–8	48	–53
Japan	45	1	46	–53
Norway	38	4	42	–45
Denmark	38	1	39	–39
Slovakia	44	–19	25	–48
Switzerland	25	0	25	–42
Czech Republic	21	0	21	–28
Costa Rica	22	–4	18	–19
Spain	46	–28	18	–80
Poland	57	–65	–8	–40
Chile	5	–28	–23	–15
France	33	–239	–206	–200
Netherlands	–280	–17	–297	–100
Sweden	–885	164	–721	–63
Other countries[1]	258	–86	172	–234
CF IS **Total**	**883**	**167**	**1,050**	**–2,466**

1) Other countries comprise a large number of countries where the tax expense and tax payments for the respective countries are of a low amount.

TB5:2 Deferred tax liability

Deferred tax liability (+), tax asset (–)

SEKm	Value, January 1	Deferred tax expense	Other changes[2]	Translation differences	Value, December 31
Non-current intangible assets	5,542	46	2	254	5,844
Property, plant and equipment	3,392	–127	–10	171	3,426
Non-current financial assets	–116	128	–125	–8	–121
Current assets	–349	–8	–6	–28	–391
Provisions	–493	–151	–50	–42	–736
Liabilities	–974	–36	29	–9	–990
Tax credits and tax loss carry-forwards	–2,289	563	–7	–83	–1,816
Other	145	–248	0	1	–102
BS **Total**[1]	**4,858**	**167**	**–167**	**256**	**5,114**

1) The net closing deferred tax liability comprises deferred tax assets of SEK 2,158m (2,232; 1,457) and deferred tax liabilities of SEK 7,272m (7,090; 3,872).
2) Other changes mainly include deferred tax recognized directly in other comprehensive income within equity according to IAS 19 of SEK –201m and IFRS 9 of SEK 21m.

TB5:3 Preceding periods' deferred tax liability (+), tax asset (–), SEKm

YEAR	Value, January 1	Deferred tax expense	Other changes	Translation differences	Transactions with shareholders	Acquisitions and divestments	Value, December 31
BS 2017	2,415	–877	–224	–94	0	3,638	4,858
BS 2016	2,700	–611	589	211	–232	–242	2,415

Tax loss carryforwards

Tax credits and tax loss carryforwards for which deferred tax assets were recognized have been reported at the tax amount on the line Tax credits and tax loss carryforwards in TB5:2 in the amount of SEK –1,816m.

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 6,470m (6,251; 4,648), gross, at December 31, 2018. The change in uncapitalized tax loss carryforwards for the period includes SEK 600m that has expired in Belgium and SEK 204m that was either utilized or capitalized. The tax value of uncapitalized tax loss carryforwards amounted to SEK 1,748m (1,852; 1,373). The expiry dates of these tax loss carryforwards are distributed as follows:

Tax loss carryforwards, gross, for which no deferred tax assets were recognized, SEKm

Year of maturity	2018	2017	2016
Within 1 year	48	325	85
2 years	305	136	917
3 years	17	67	1
4 years	100	28	1
5 years or more	1,499	1,143	988
Indefinite life	4,501	4,552	2,656
Total	**6,470**	**6,251**	**4,648**

C. EMPLOYEES

C1. PERSONNEL COSTS

No remuneration was paid to senior executives in Essity for work in this company during 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for senior executives were allocated from SCA to Essity for 2016. Remuneration of senior executives in Essity for 2017 and 2018 was paid in its entirety from Essity.

Personnel costs

SEKm	Note	2018	2017	2016
Salaries and remuneration		−15,403	−14,562	−12,801
TC3:1 of which Executive Management Team		−124	−126	−131
of which Board	C4	−9	−9	−8
Pension costs		−1,433	−1,193	−1,208
of which defined benefit pension costs	C5	−528	−425	−541
of which other pension costs		−905	−768	−667
Other social security costs		−3,594	−3,213	−2,840
Other personnel costs		−1,591	−1,174	−1,134
Total[1)]		**−22,021**	**−20,142**	**−17,983**

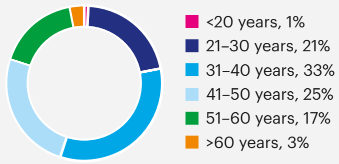
[1)] Costs for implemented efficiency-enhancement activities of SEK −700m (−69; −67) are included in total personnel costs.

C2. PERSONNEL DATA

	2018	2017	2016
Average number of employees	**47,222**	**46,385**	**42,149**
of whom women, %	34	34	32
Number of employees who joined the Group during the period	6,981	13,585	8,150
of whom, through acquisitions	36	5,518	
Number of employees who left the Group during the period	7,815	7,321	5,994
of which restructuring	544	584	262
of which retirement	383	418	304
Personnel turnover, excl. restructuring, retirement, %	15	14	13
Personnel turnover, excl. restructuring, retirements, temporary employees, %	13	–	–
of which wholly owned companies	5	–	–
Diversity			
Women, of total number of Board members and senior executives, %	39	42	42
Women, of total number of Board members (excl. members appointed by the employees) and senior executives, %	45	48	43
Women in executive management, %	25	36	33
Nationalities, senior management[1)], number	17	18	21
Nationalities, senior and middle management[1)], number	39	36	32
Female managers, senior management[1)], %	26	27	25
Female managers, senior and middle management[1)], %	27	23	27
Age distribution, %			
Employees under 20 years of age, %	1	1	1
21–30 years	21	22	24
31–40 years	33	33	32
41–50 years	25	25	25
51–60 years	17	16	16
Employees over 60 years of age, %	3	3	2
Investments in skills-enhancement activities			
total, SEKm	141	152	141
per employee, SEK	3,000	3,300	3,400
Value added per employee	661	666	613
Return on human capital	1.50	1.59	1.50
Proportion of university graduates, %	23	22	22

The figures for the number of employees who left the Group during the period include both voluntary resignations and retirements. In addition, a significant portion relates to summer jobs for students and seasonal work. In 2018, Essity had employees in 66 countries (65; 60).

Age distribution 2018



C3. REMUNERATION OF SENIOR EXECUTIVES

AP ACCOUNTING PRINCIPLES

Recognition of variable remuneration

Essity has two variable remuneration programs: Short-term incentive (STI) and Long-term incentive (LTI). Variable remuneration is capped at a specific percentage of fixed salary.

The structure of the STI targets is related to the financial targets, or goals that contribute to the achievement of financial targets, such as operating cash flow, cost efficiency, EBITA margin, organic sales growth and consolidated profit before tax, as well as innovation goals.

For the LTI target, the outcome and size of the remuneration is based on the performance of the company's B share, measured as the TSR (Total Shareholder Return) index compared with the MSCI Household Products Index, Consumer Staples. The latter index contains competitors' and consumer companies' TSR over a three-year period. Essity's performance target is higher TSR for the company than the benchmark index (maximum outcome requires the outcome to be 5% better than the benchmark index).

All variable remuneration under STI and LTI is paid in cash to employees. Accordingly, the programs do not have any dilutive effect. Participants in the LTI program undertake to personally acquire shares in Essity for half of the LTI outcome paid after tax and to refrain from divesting these shares for a period of three years.

The outcome of the STI and LTI targets is evaluated during the year and expensed or recognized as liabilities on an ongoing basis until payment is made in the following year.

Essity's assessment is that the variable remuneration falls under the application area for IAS 19.

Senior executives refer to the President, who is also the CEO, the Executive Vice President, Business Unit Presidents in Essity and equivalents, and the Central Staff Managers.

Annual General Meeting guidelines for remuneration of senior executives

The 2018 Annual General Meeting (AGM) adopted the following guidelines for remuneration of senior executives.

"Remuneration of senior executives will be a fixed salary, variable remuneration, additional benefits and pension. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession and linked to the executive's responsibility and authority.

The variable remuneration is to be limited and linked to the fixed remuneration, based on performance results in relation to the annual and long-term established targets.

In the event of termination of employment, the notice period should normally be up to two years if termination is initiated by the company, and up to one year, when initiated by the senior executive. Severance pay should not exist.

Pension benefits should, to the extent possible, only contain defined contribution pension benefits and entitle the executive to receive a pension from the age of 65. Variable remuneration is not part of pensionable income.

The board of directors shall be entitled to deviate from the adopted guidelines if, in an individual case, there are special reasons for doing so. The guidelines shall not prevail over mandatory conditions under labour law or collective agreements. Neither do they apply to existing agreements."

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Company's application of guidelines

The company applied the guidelines approved by the AGM in the following manner.

Fixed salary

The fixed salary is to be in proportion to the individual's position and the authority and responsibilities this entails. It is set individually at a level that, combined with other remuneration, is assessed as a market rate and competitive in the labor market in which the executive works.

Variable remuneration

Variable remuneration of the CEO, Executive Vice President and Business Unit Presidents and equivalents is maximized to a total of 100% of the fixed salary. For two Business Unit Presidents, stationed in the Americas, the maximum outcome is 110–130%, while the corresponding limit for other senior executives is 90%. The program for variable remuneration is divided into short-term and long-term portions. The short-term portion ("Short-term Incentive", or STI) for the CEO, Executive Vice President and Business Unit Presidents and equivalents may amount to a maximum of 50% of fixed salary. For the Business Unit Presidents, stationed in the Americas, the maximum outcome is 60–80% of the fixed salary, while the corresponding limit for other senior executives is 40%. The STI goals set for the Business Unit Presidents are mainly based on operating cash flow, capital efficiency, EBITA margin and organic sales growth for each business unit. The goal for the CEO and others reporting directly to him is based primarily on the Group's profit before tax, EBITA margin, operating cash flow and organic sales growth. Furthermore, for certain senior executives, goals for cost efficiency and innovation also apply, accounting for 20–30% of the variable remuneration. The long-term portion ("Long-Term Incentive", or LTI) may amount to a maximum of 50% of the fixed salary. The senior executive is to invest half of the variable LTI compensation, after tax withholdings, in Essity shares. The shares may then not be sold before the end of the third year after the purchase of shares in the relevant LTI program. The established LTI goal is based on the performance of the company's B share, measured as the TSR (Total Shareholder Return) index compared with the MSCI Household Products Index, Consumer Staples, which contains a weighted index of competitors' and consumer companies' shares performance (TSR) over a three-year period, where the performance target is higher TSR for the company than the benchmark index (maximum outcome requires a 5% better outcome than the benchmark index).

Outcome, variable remuneration

For the CEO, Executive Vice President and Central Staff Managers, STI resulted in 5–17% of fixed salary for 2018. STI resulted in variable remuneration corresponding to 9–30% of fixed salary for the Business Unit Presidents. The LTI target was achieved for 2016–2018, resulting in a maximum outcome for the CEO and other senior executives.

Other benefits

Other benefits pertain, in some cases, to a company car, commuter reimbursement and health insurance.

TC3:1 Remuneration and other benefits during the year 2018

SEK	Fixed salary	Variable remuneration[1]	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	13,000,000	7,345,000[2]	98,383	20,443,383
Other senior executives (13 people)[3]	60,005,069	38,743,013[4]	5,054,275	103,802,357
Total	**73,005,069**	**46,088,013**	**5,152,658**	**124,245,740**

1) Variable remuneration covers the 2018 fiscal year but is paid in 2019.
2) Of which LTI program SEK 6,500,000.
3) Includes remuneration to the former Head of Sustainability and Public Affairs, who as a result of the restructuring of the Group is no longer a member of the Executive Management Team.
4) Of which LTI program SEK 36,502,537.

Pension costs 2018[1]

SEK	
President and CEO Magnus Groth[2]	5,443,050
Other senior executives (13 people)[3]	18,115,299
Total	**23,558,349**

1) The pension costs pertain to the costs that affected profit for 2018, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 19,933,280.
3) Outstanding pension obligations amount to SEK 80,261,840.

Pension

The CEO has a defined contribution pension based on an annual payment, to be paid by the company, amounting to 40% of the employee's fixed salary, in addition to the agreed contribution for the basic pension benefits in the ITP plan, with retirement pension benefits limited to a maximum salary income of 7.5 income base amounts. The retirement age for the CEO is 65. Five other executives are covered by corresponding defined contribution pension benefits with an annual premium of approximately 30–40% and pension age of 65. One senior executive in Sweden has a combined defined benefit and defined contribution plan. Five senior executives that are employed in companies outside Sweden are encompassed by defined contribution pension plans on local market-based terms.

Remuneration of senior executives

No remuneration was paid to senior executives in Essity for work in this company during 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for senior executives were allocated from SCA to Essity for 2016. Remuneration of senior executives in Essity for 2017 and 2018 was paid in its entirety from Essity.

Notice period and severance pay

The agreement with the CEO stipulates a period of notice of termination of two years if such notice is given by the company. The CEO has a corresponding right with a period of termination of one year. If notice is given by the company, the CEO is not obligated to serve during the notice period. The agreement has no stipulations with regard to severance pay. Between the company and other senior executives, a period of notice of termination of one to two years normally applies, if such notice is given by the company. The executive has a corresponding right with a period of notice of termination of six months to one year. The executive is normally expected to be available to the company during the notice period. The agreements have no stipulations with regard to severance pay.

Preparation and decision process for remuneration

During the year, the Remuneration Committee submitted recommendations to the Board regarding the principles for remuneration of senior executives. The recommendations encompassed the ratio between fixed and variable remuneration and the size of any salary increases. In addition, the Remuneration Committee expressed an opinion on the criteria for assessing variable remuneration and pension terms. The Board discussed the Remuneration Committee's proposal and decided on the basis of the Committee's recommendations. The remuneration of senior executives for the fiscal year was based on the Remuneration Committee's recommendation and, with regard to the CEO, decided by the Board. The executives concerned did not participate in remuneration matters pertaining to themselves. When it was deemed appropriate, the work of the Remuneration Committee was carried out with the support of external expertise.

The Board's proposal for new guidelines

The Board proposes that the 2019 Annual General Meeting adopt unchanged guidelines for remuneration of senior executives of Essity. With the salary situation prevailing in 2019 with 12 senior executives, the maximum outcome of variable remuneration could entail a cost for the Group, excluding social security costs, of approximately SEK 71m.

TC3:1 Remuneration and other benefits during the year 2017

SEK	Fixed salary	Variable remuneration[1]	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	12,000,000	10,152,000[2]	90,137	22,242,137
Other senior executives (13 people)	55,925,897	45,407,357[3]	2,636,314	103,969,568
Total	**67,925,897**	**55,559,357**	**2,726,451**	**126,211,705**

1) Variable remuneration covers the 2017 fiscal year but is paid in 2018.
2) Of which LTI program SEK 6,000,000.
3) Of which LTI program SEK 27,962,950.

Pension costs 2017[1]

SEK	
President and CEO Magnus Groth[2]	5,036,001
Other senior executives (13 people)[3]	15,806,197
Total	**20,842,198**

1) The pension costs pertain to the costs that affected profit for 2017, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 18,858,000.
3) Outstanding pension obligations amount to SEK 77,684,265.

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

TC3:1 Remuneration and other benefits during the year 2016

SEK	Fixed salary	Variable remuneration[1]	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	11,000,000	8,998,000[2]	87,738	20,085,738
Other senior executives (14 people)	58,739,016	45,611,997[3]	6,127,411	110,478,424
Total	**69,739,016**	**54,609,997**	**6,215,149**	**130,564,162**

1) Variable remuneration covers the 2016 fiscal year but is paid in 2017.
2) Of which LTI program SEK 5,500,000.
3) Of which LTI program SEK 29,225,605.

Pension costs 2016[1]

SEK	
President and CEO Magnus Groth[2]	4,495,961
Other senior executives (12 people)[3]	19,647,387
Total	**24,143,348**

1) The pension costs pertain to the costs that affected profit for 2016, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 15,741,000.
3) Outstanding pension obligations amount to SEK 131,665,322.

Obligations in relation to former presidents and CEOs

For former presidents and CEOs, Essity has outstanding, non-funded obligations amounting to SEK 185m. These costs were recognized in previous years and comprise pension obligations that Essity assumed from Svenska Cellulosa Aktiebolaget in conjunction with the split of the Group.

C4. FEES TO BOARD MEMBERS IN THE PARENT COMPANY DURING THE YEAR

No remuneration was paid to Board members of Essity Aktiebolag (publ) for Board work in this company during 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for Board members were allocated from SCA to Essity for 2016. Remuneration of Board members in Essity Aktiebolag (publ) for 2017 was paid in its entirety from Essity Aktiebolag (publ). Remuneration to non-executive Board members of Essity Aktiebolag (publ) refers to the fees approved at the AGM on April 4, 2018 for the period until the next AGM in April 2019. No remuneration is paid to the President and CEO and other employees.

	Board fee			Audit Committee fee			Remuneration Committee fee			Total		
SEK	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Pär Boman (Chairman)	2,220,000	2,100,000	2,100,000	264,000	250,000	200,000	143,000	135,000	135,000	2,627,000	2,485,000	2,435,000
Ewa Björling	740,000	700,000	700,000							740,000	700,000	700,000
Maija-Liisa Friman	740,000	700,000	700,000							740,000	700,000	700,000
Annemarie Gardshol	740,000	700,000	700,000							740,000	700,000	700,000
Louise Svanberg	740,000	700,000	700,000				111,000	105,000	105,000	851,000	805,000	805,000
Johan Malmquist		700,000	700,000								700,000	700,000
Bert Nordberg	740,000	700,000	700,000	264,000	250,000	200,000	111,000	105,000	105,000	1,115,000	1,055,000	1,005,000
Barbara Milian Thoralfsson	740,000	700,000	700,000	349,000	330,000	250,000				1,089,000	1,030,000	950,000
Lars Rebien Sørensen	740,000	700,000								740,000	700,000	
Total	**7,400,000**	**7,700,000**	**7,000,000**	**877,000**	**830,000**	**650,000**	**365,000**	**345,000**	**345,000**	**8,642,000**	**8,875,000**	**7,995,000**

C5. REMUNERATION AFTER EMPLOYMENT

AP ACCOUNTING PRINCIPLES

Defined benefit pension plans

Defined benefit pension plans are characterized by the fact that payment is based on the period of employment and the employee's salary at, or just prior to, retirement. The actuarial and investment-related risks associated with defined benefit pension plans are carried by the company.

The defined benefit obligations are calculated annually by independent actuaries using the Projected Unit Credit Method. Calculations are based on actuarial assumptions. Actuarial assumptions comprise the company's best assessment of the variables that determine the final cost for providing the benefits. The obligation is measured at the present value of the anticipated future cash flows using a discount rate (see Key assessments and assumptions on page 83). Actuarial gains and losses (remeasurements) are recognized directly in equity under other comprehensive income in the period in which they arise. The recognized cost for the defined benefit plans includes personnel costs, as well as net interest items. Net interest items comprise the discount rate calculated on the average net pension liability for the period, taking fee and remuneration payments into consideration. The difference between the calculated interest income (discount rate) on the plan assets and Essity's actual return on the plan assets is included in the remeasurement of the defined benefit net liability or net asset recognized in equity under other comprehensive income. Past service costs are recognized in profit or loss in the period in which they arise.

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, meaning plans with assets exceeding obligations, are recognized as a financial non-current asset provided they are not limited by the "asset ceiling" under IAS 19. Other pension plans, which are not fully funded or unfunded, are recognized as Provisions for pensions.

In certain countries, pension payments are subject to taxes or fees. In such cases, these are included in the calculation of the obligation for the defined benefit pension plans. These taxes or fees are recognized as an expense in profit or loss, except in cases where they are attributable to actuarial gains or losses, in which case they are recognized directly in equity under other comprehensive income, as are the actuarial gains or losses.

Defined contribution pension plans

Plans where the employer's obligation is limited to the premiums the company has undertaken to pay are classified as defined contribution plans. In these plans, it is the employee who bears the investment risk, meaning the risk that the invested assets could be insufficient to generate the anticipated compensation. The Group's payments relating to defined contribution plans are recognized as an expense during the period the employees carry out the service to which the payment relates.

Other post-retirement benefits

Some Group companies provide post-retirement healthcare benefits. The obligation and anticipated costs for these benefits has been calculated and recognized in a similar manner to that applying to defined benefit pension plans.

Severance pay

Severance pay is recognized as a payroll expense when the Group has an obligation to compensate employees whose employment was terminated early.

C5. REMUNERATION AFTER EMPLOYMENT, CONT.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

The calculation of recognized expenses and provisions for defined benefit pension plans, where the size of the future compensation is unknown and payment will occur far in the future, is dependent on assumptions and assessments. Key assumptions and assessments include the discount rate, future salary increases, inflation and life expectancy. Essity determines the discount rate based primarily on AA-rated corporate bonds issued in the currency in which the payments will be made that match the duration of the obligations. If no such corporate bonds are available, government bonds or mortgage bonds are used. Inflation assumptions are based on a combination of central bank targets, implicit market expectations and long-term analyst forecasts. Assumptions regarding salary increases are based on market expectations and market research forecasts. Key actuarial assumptions are presented in TC5:5. The sensitivity of the recognized provision with respect to key actuarial assumptions is described in TC5:6.

Provisions for pensions and similar obligations

SEKm	2018	2017	2016
TC5:2 Defined benefit obligations	33,082	33,007	30,638
TC5:3 Fair value of plan assets	–29,648	–30,418	–26,363
TC5:4 Effect of asset ceiling	707	804	663
TC5:1 Provision for pensions, net	**4,141**	**3,393**	**4,938**

Surpluses in funded plans recognized as financial non-current assets amounted to BS SEK 1,117m (1,148; 335) on the balance sheet date and provisions for pensions totaled BS SEK 5,258m (4,541; 5,273). Defined benefit obligations include obligations in an amount of SEK 2,380m (2,313; 2,268) pertaining to unfunded plans.

Essity has both defined contribution and defined benefit pension plans in a number of subsidiaries. The most significant defined benefit pension plans in the respective countries are described below.

TC5:1 Provisions for pensions and similar obligations per country

SEKm Country	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
Netherlands	2,184	1,148	1,307	4,639	–4,194	–	445	22
UK	–	8,744	6,895	15,639	–16,033	–	–394	19
Sweden	1,586	1,012	1,097	3,695	–2,640	707	1,762	19
Germany	2,039	555	1,370	3,964	–3,667	–	297	17
US	511	1,368	1,703	3,582	–2,780	–	802	12
Other	1,407	–	156	1,563	–334	–	1,229	13
Total	**7,727**	**12,827**	**12,528**	**33,082**	**–29,648**	**707**	**4,141**	

Netherlands
The plan is a defined benefit plan with premiums paid by the company and the employee. The plan is managed by an independent fund. Surpluses in the fund remain in the fund assets but can be utilized in the form of premium discounts. The plan is based on average salary and includes retirement pension, beneficiaries' pension and disability pension. The plan is obligated to meet the minimum legislated funding level. The plan applies a duration matching strategy to control the interest rate risk.

United Kingdom
The plan is a defined benefit plan with contributions paid by the company. The plan consists of retirement pension, beneficiaries' pension and disability pension. The plan was closed to new participants in 2007 and closed for future accrual in September 2018. The plan is managed by an independent company and assets are held separately, according to UK law. Any surpluses in the pension plan remain in the plan. Whilst ongoing contributions have ceased, deficit contributions remain payable until 31 March 2023 under the current Schedule of Contributions. Should the plan go into surplus during this period then deficit contributions would cease for as long as the surplus remained . The plan is obligated to meet the minimum funding level according to an agreement with the pension plan.

Sweden
In Sweden, the defined benefit obligation is mainly covered by the ITP2 plan and executive pensions. The ITP2 plan (supplementary pensions for salaried employees) encompasses employees born before 1979 and is a defined benefit plan that provides retirement pension based on final salary. The ITP2 plan provides pension as a percentage of various salary intervals. The ITP2 plan is safeguarded by a fund, and the company may compensate itself using any surpluses in the plan assets. The pension plans for executives are largely retirement and beneficiaries' pension plans based on final salary and are closed to new participants and the liability largely comprises paid-up pension policies or pensions in payment. The pension plans for executives are largely unfunded and are credit-insured with PRI Pensionsgaranti.

Germany
In Germany, the defined benefit obligation comprises a number of different pension plans offering retirement pension, beneficiaries' pension and disability pension. Plans based on final salary exist but these are closed to new participants and the benefit depends on the length of service and final salary at retirement. Defined contribution plans are also offered in which the benefit depends on provisions made by the company and, in certain plans, even by the employee during the period of service, and guaranteed return on the provisions. The obligations are largely financed by two different funds and the company may, in certain instances, compensate itself using any surpluses in the plan assets.

US
In the US, the defined benefit obligations comprise retirement pensions in which the premiums are paid by the company and the benefit is based on a standard amount per service year. Only one plan is still open for new accrual for about 200 employees. The benefits are financed via a pension fund that

Costs for the period for defined benefit plans

SEKm	2018	2017	2016
Current service cost, after deduction for premiums paid by the employees	–589	–564	–511
Past service cost	36	104	–25
Pension-tax expense	–33	–32	–27
Remeasurement, net	9	–7	–5
Net interest income/expense	–83	–136	–117
Pension costs before effects of settlements	**–660**	**–635**	**–685**
Settlements	16	42	–
Pension costs after effects of settlements	**–644**	**–593**	**–685**

is obligated to meet the minimum legislated funding level. Surpluses in the pension fund can be utilized in the form of premium discounts.

TC5:2 Defined benefit obligations

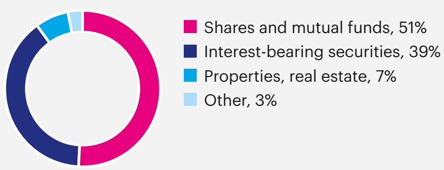
SEKm	2018	2017	2016
Value, January 1	**33,007**	**30,638**	**25,561**
Current service cost	601	575	524
Interest expense	811	858	922
Past service cost	–36	–104	25
Pension-tax expense	33	32	27
Settlements and transfers	–251	212	–16
Acquisitions and disposals	2	972	2,168
Benefits paid	–1,445	–1,114	–1,062
Pension taxes paid	–12	–5	–49
Remeasurement: financial assumptions	–1,102	1,332	3,966
Remeasurement: demographic assumptions	–26	–198	–35
Remeasurement: experience-based assumptions	304	–57	–571
Pension taxes pertaining to remeasurement	69	55	30
Transactions with shareholders	–	–	22
Translation differences	1,127	–189	–874
Value, December 31	**33,082**	**33,007**	**30,638**

Remeasurements in the defined benefit obligations comprise changes in financial assumptions, such as changes to the discount rate, any changes in demographic assumptions and experience-based deviations. Experience-based deviations include unexpectedly high or low employee turnover or salary increases.

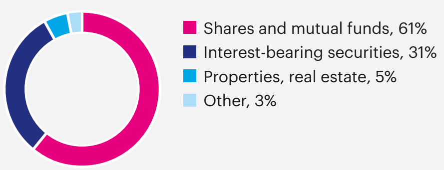
TC5:3 Plan assets

SEKm	2018	2017	2016
Fair value, January 1	**–30,418**	**–26,363**	**–23,839**
Interest income	–747	–740	–843
Acquisitions and disposals	–	–661	–1,473
Contributions by plan participants	–12	–11	–13
Contributions by the employer	–1,019	–1,367	–959
Benefits paid, excluding settlements	1,368	1,110	1,054
Benefits paid for settlements	226	–226	30
Return in excess of recognized interest income	1,909	–2,316	–1,782
Administrative expenses for pension obligations	42	32	40
Transactions with shareholders	–	–	443
Translation differences	–997	124	979
Fair value, December 31	**–29,648**	**–30,418**	**–26,363**

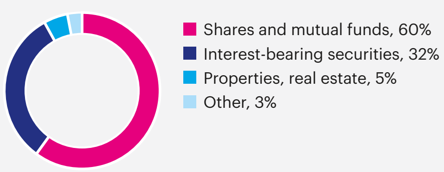
The plan assets are distributed according to the following classes of assets, 2018:



The plan assets are distributed according to the following classes of assets, 2017:



The plan assets are distributed according to the following classes of assets, 2016:



92% (95; 95) of the plan assets on the balance sheet date were traded on active markets in which market quotations are used for the valuation of assets. As in the preceding year, no financial instruments issued by Essity are included in the fair value of plan assets at December 31, 2018.

TC5:4 Effect of asset ceiling

SEKm	2018	2017	2016
Value, January 1	**804**	**663**	**1,162**
Interest expense	19	18	38
Transactions with shareholders	–	–	–498
Other changes to asset ceiling	–116	123	–39
Value, December 31	**707**	**804**	**663**

Effect of asset ceiling pertains to funds in two Swedish foundations that can be used for possible future undertakings for early retirement for certain categories of employees.

TC5:5 Principal actuarial assumptions

	Sweden	United Kingdom	Germany	Netherlands	US
2018					
Discount rate	2.26	2.72	1.87	1.94	4.30
Expected salary increase rate	3.25	N/A	3.00	3.00	N/A
Expected inflation	2.00	3.00	1.75	1.75	N/A
Life expectancy, men[1]	22	22	20	21	20
Life expectancy, women[1]	25	24	24	24	22
2017					
Discount rate	2.39	2.50	1.61	1.77	3.70
Expected salary increase rate	3.25	3.00	2.85	2.85	N/A
Expected inflation	2.00	3.00	1.60	1.60	N/A
Life expectancy, men[1]	22	22	19	22	20
Life expectancy, women[1]	25	24	23	24	22
2016					
Discount rate	2.73	2.72	1.31	1.80	4.13
Expected salary increase rate	2.75	3.00	2.85	2.85	N/A
Expected inflation	1.50	3.00	1.60	1.60	N/A
Life expectancy, men[1]	22	22	19	22	20
Life expectancy, women[1]	25	25	23	24	22

[1] Life expectancy, expressed in years, for an individual currently aged 65.

The sensitivity of the defined benefit obligations with respect to the changes in the principal actuarial assumptions is as follows:

TC5:6 Change of obligation, increased obligation (–)

SEKm	
Discount rate +0.25%	1,361
Price inflation, incl. salary inflation +0.25%	–1,047
Life expectancy +1 year	–1,321

The above sensitivity analysis is calculated by changing one assumption while the others remain constant.

MULTIEMPLOYER PLANS

Essity has obligations for disability and family pensions for salaried employees in Sweden, secured through insurance with the insurance company Alecta. The company also has employees in Finland who are covered by the country's statutory TyEL pension plan. These obligations are secured through the insurance company Varma. These benefits are reported as defined contribution plans, since there is no basis for allocating the obligations, plan assets and costs to the individual companies covered by the plan.

Budgeted contributions

The budgeted contributions for the company's defined benefit pension plans for 2019 were calculated at SEK 1,017m. Contributions for multiemployer plans for 2019 were calculated at SEK 43m.

D. OPERATING ASSETS AND LIABILITIES

D1. INTANGIBLE ASSETS

AP ACCOUNTING PRINCIPLES

Goodwill
Goodwill arises in connection with business combinations where the consideration transferred exceeds the fair value of the acquired net assets. Goodwill is recognized at cost less accumulated impairment and is an intangible asset with an indefinite useful life. This means that goodwill is not amortized, but rather is tested annually for impairment. All goodwill is allocated to the cash-generating units that are expected to benefit from the synergies from the business combination. In connection with the sale of Group companies, the remaining carrying amount of the goodwill attributable to the divested unit is included in the capital gain/loss. Goodwill that arises in acquisitions of associates or joint ventures is included in the carrying amount of the respective associate or joint venture.

Trademarks
Trademarks arise either in connection with company acquisitions or through agreements to purchase trademarks. Trademarks are recognized at cost after any accumulated amortization and accumulated impairment. Trademarks that have an indefinite useful life are not amortized, but rather are tested annually for impairment along with the impairment testing of goodwill. Trademarks with a limited useful life are amortized on a straight-line basis during their anticipated useful life, which varies between three and ten years.

Licenses, patents and similar rights
Intangible assets also include patents, licenses and other similar rights. Acquired assets of this type are recognized at cost and are amortized on a straight-line basis during their anticipated useful life, which varies between three and 20 years.

Customer relations
Customer relations are measured at fair value at the time of the acquisition. The value of these customer relations is amortized over their useful life, which is considered to be between three and 15 years.

Research and development
Research expenditure is recognized as an expense as incurred. Identifiable expenditure for development of new products and processes is capitalized to the extent it is expected to provide future economic benefits. In cases in which it is difficult to separate the research phase from the development phase in a project, the entire project is treated as research and expensed immediately. Development costs for packing and packaging materials are expensed directly. In general, development projects are conservatively assessed due to the difficulty in determining what will lead to commercial success. Capitalized expenditure is amortized on a straight-line basis from the date when the asset starts to be used during the estimated useful life of the asset. The amortization period is between five and ten years.

Impairment testing
Goodwill is tested annually for impairment. When testing for impairment, the assets are grouped in cash-generating units. Essity has defined three cash-generating units for impairment testing, which coincide with the operating segments Consumer Tissue, Professional Hygiene and Personal Care. The test compares the carrying amounts of the cash-generating units with the recoverable amounts. The recoverable amount of each cash-generating unit is determined by discounting future cash flows in order to determine their value in use. The calculation of future cash flows is based on the strategic plans adopted by the Executive Management Team for the next three years. The carrying amount for the cash-generating unit includes goodwill, trademarks with indefinite useful lives and assets with definite useful lives, such as non-current assets, trademarks and working capital. Effects of expansion investments are excluded when calculating the value in use. The value of depreciated assets is tested for impairment whenever there are indications that the carrying amount might not be recoverable. In cases in which the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized on the asset down to the recoverable amount. An impairment loss recognized earlier is reversed, if the reasons for the impairment no longer exist. The carrying amount after the reversal is limited to what it would have been had no past impairment been recognized. Impairment losses on goodwill are never reversed.

Emission allowances and costs for carbon dioxide emissions
Essity participates in the European system for emission allowances.

When emission allowances relating to carbon dioxide emissions are received from an individual EU state, they are recognized as an intangible asset and as deferred income (liability). Allowances are received free of charge and measured and recognized at market value as of the date when the allocation is received. During the period, the intangible asset is expensed in pace with carbon dioxide emissions made at the same time the deferred income is reversed by the corresponding amount in the form of income, thereby resulting in no net effect in profit or loss. If the emission allowances received do not cover emissions made, Essity makes a provision for the deficit valued at the market value on the balance sheet date. Sales of surplus emission allowances are recognized as income on the delivery date.

If the market price of emission allowances on the balance sheet date is less than recognized cost, any surplus emission allowances that are not required to cover emissions made are impaired to the market price applying on the balance sheet date. In conjunction with this, the remaining part of the deferred income is recognized as income by a corresponding amount and therefore no net effect occurs in profit or loss. The emission allowances are used as payment in the settlement with the state regarding liabilities for emissions.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

In connection with the annual impairment testing of goodwill, the recoverable amount is calculated. The recoverable amount for the cash-generating units is determined by calculating value in use. Calculation of the value in use is based on the three-year strategy plans adopted by the Executive Management Team, which in turn are based on assumptions and assessments. The most important assessments and assumptions pertain to forecasts for organic growth, the profit margin and the discount rate used. The discount rate used in the present value calculation of the anticipated future cash flows is the current weighted average cost of capital (WACC) established within the Group for the markets in which the cash-generating units conduct operations.

Profit margin assumptions are based on current market prices and costs with an addition for real price reductions and cost inflation as well as assumed productivity development. The growth assumption follows the Group's target of annual organic growth of above 3%. The growth assumptions are in line with historic outcome and expected global market growth.

The expected sustained future cash flow for periods that are beyond the planning horizon of the strategy plan are extrapolated from the final year of the strategy plan using assumed sustained growth of 2% (2; 2).

D1. INTANGIBLE ASSETS, CONT.

Goodwill

SEKm	2018	2017	2016
Accumulated costs	33,887	31,956	19,428
Accumulated impairment	–334	–259	–175
Total	**33,553**	**31,697**	**19,253**
Value, January 1	**31,697**	**19,253**	**15,412**
Company acquisitions	311	13,290	3,375
Company divestments	–	–	–
Reclassifications	–7	–	–
Impairment	–49	–84	–135
Translation differences	1,601	–762	601
BS **Value, December 31**	**33,553**	**31,697**	**19,253**

Intangible assets excluding goodwill

	Trademarks			Technologies, Customer relations and similar rights			Capitalized development costs			Total Other intangible assets		
SEKm	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Accumulated costs	14,438	13,840	6,782	11,863	11,404	4,472	447	352	12	26,748	25,596	11,266
Accumulated amortization	–446	–358	–318	–4,312	–3,412	–2,890	–87	–43	–12	–4,845	–3,813	–3,220
Accumulated impairment	–446	–365	–452	–73	–65	–5	–	–	–	–519	–430	–457
Total	**13,546**	**13,117**	**6,012**	**7,478**	**7,927**	**1,577**	**360**	**309**	**–**	**21,384**	**21,353**	**7,589**
Value, January 1	**13,117**	**6,012**	**5,871**	**7,927**	**1,577**	**1,404**	**309**	**–**	**1**	**21,353**	**7,589**	**7,276**
Investments	–	–	–	153	749	155	77	71	–	230	820	155
Sales and disposals	–	–	–	–4	–21	–1	–	–	–	–4	–21	–1
Company acquisitions	9	7,095	33	68	6,112	180	–	265	–	77	13,472	213
Reclassifications	–	28	–	–59	285	128	–	–	–	–59	313	128
Amortization [1]	–78	–68	–59	–929	–754	–321	–42	–31	–	–1,049	–853	–380
Impairment	–56	–	–	–	–48	–2	–	–	–	–56	–48	–2
Translation differences	554	50	167	322	27	34	16	4	–1	892	81	200
Value, December 31	**13,546**	**13,117**	**6,012**	**7,478**	**7,927**	**1,577**	**360**	**309**	**–**	**21,384**	**21,353**	**7,589**
TD1:1 Emission allowances, net value										91	71	76
BS **Value, December 31 including emission allowances**										**21,475**	**21,424**	**7,665**

[1] Amortization of Trademarks and Customer relations is included in Sales, general and administration while Technologies and Other intangible assets is included in Cost of goods sold.

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. The testing showed that no impairment was needed for 2018, 2017 or 2016. The WACC before tax used in the impairment testing of goodwill is presented in the table below. Sensitivity analyses show that reasonable changes to key parameters do not give rise to any impairment requirement. In addition to annual impairment testing of the cash-generating units, outlined above under the section Impairment testing, goodwill, trademarks with indefinite useful lives and individual assets are also tested when there is an indication of an impairment need. During the period, intangible assets, mainly attributable to the operating segment Personal Care, were impaired by SEK –105m.

Distribution by operating segment

	Goodwill			Trademarks			WACC, before tax %		
SEKm	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Personal Care	17,029	16,039	3,036	8,524	8,230	1,109	9.8	9.5	11.3
Consumer Tissue	9,625	9,276	9,335	5,016	4,878	4,891	9.4	9.2	8.3
Professional Hygiene	6,899	6,382	6,882	6	9	12	8.1	8.2	8.3
Total	**33,553**	**31,697**	**19,253**	**13,546**	**13,117**	**6,012**			

TD1:1 Emission allowances

SEKm	2018	2017	2016
Accumulated costs	91	71	88
Accumulated revaluation of surplus	0	0	–12
Total	**91**	**71**	**76**
Value, January 1	**71**	**76**	**75**
Emission allowances received	59	47	58
Purchases	25	17	–
Settlement with the government	–68	–71	–64
Revaluation of surplus	0	0	–1
Translation differences	4	2	8
Value, December 31	**91**	**71**	**76**

D4. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2018	2017	2016
VAT receivables	999	891	707
Prepaid expenses and accrued income	542	496	485
Suppliers with debit balance	43	256	155
Receivables for electricity and gas	134	116	103
Receivables from authorities	75	85	103
Derivatives	324	208	314
Other receivables	482	497	466
BS **Total**	**2,599**	**2,549**	**2,333**

D5. OTHER LIABILITIES

Other liabilities

SEKm	2018	2017	2016
Other non-current liabilities			
Derivatives	8	5	2
Other non-current liabilities	63	74	70
BS **Total**	**71**	**79**	**72**
Of which items that fall due for payment later than within five years	17	17	28
Other current liabilities			
Derivatives	35	42	76
TD5:1 Accrued expenses and prepaid income	10,190	9,575	8,843
Other operating liabilities	1,694	1,987	1,809
VAT liabilities	873	965	876
BS **Total**	**12,792**	**12,569**	**11,604**

TD5:1 Accrued expenses and prepaid income

SEKm	2018	2017	2016
Accrued social security costs	394	371	375
Accrued vacation pay liability	689	621	625
Other liabilities to personnel	967	1,150	1,039
Bonus and discounts to customers	4,773	4,401	4,039
Other items	3,367	3,032	2,765
Total	**10,190**	**9,575**	**8,843**

D6. OTHER PROVISIONS

AP ACCOUNTING PRINCIPLES

Provisions are recognized in the consolidated balance sheet when there is a legal or informal obligation arising from events that have occurred and it is probable that payments will be required to settle the obligation. It must also be possible to reliably estimate the amount to be paid. The provision is valued at the present value of the anticipated future expenditure to settle the obligation.

A provision for restructuring measures is recognized when the Group has established a detailed plan and either implementation has begun or the main features of the measures have been communicated to the parties involved. Restructuring costs include, for example, costs for plant closures, impairment of production machinery and costs for personnel reductions.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

The amount of the provisions made relating to national competition investigations is based on the company's best assessment, which was determined in consultation with local expertise in the field.

In respect of tax risks, these are also based on Essity's best assessment, which in most cases is determined in consultation with local tax experts.

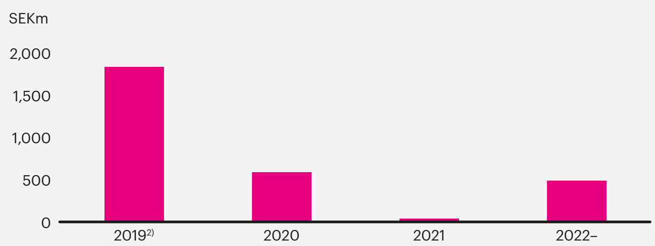
Other provisions 2018

SEKm	Efficiency programs	Tax risks	Environment	Legal disputes	Other	Total
Value, January 1	**555**	**890**	**66**	**820**	**697**	**3,028**
Provisions	966	182	89	244	45	1,526
Utilization	–421	–1	–68	–10	–169	–669
Reclassifications	–1	76	–	–	–19	56
Dissolutions	–103	–419	–	–66	–265	–853
Translation differences	27	3	4	20	24	78
Value, December 31	**1,023**	**731**	**91**	**1,008**	**313**	**3,166**
Provisions comprise:						
BS Short-term component						1,472
BS Long-term component						1,694

Other provisions, previous periods

SEKm	2017	2016
Value, January 1	**2,816**	**1,775**
Provisions	958	2,165
Company acquisitions	191	–
Utilization	–619	–1,110
Reclassifications	77	15
Dissolutions	–416	–65
Translation differences	21	36
Value, December 31	**3,028**	**2,816**

Distribution of other provisions by maturity[1)]



1) The timing of provisions totaling SEK 221m cannot be assessed.
2) At the end of January 2019, the Supreme Court in Spain dismissed Essity's appeal regarding breaches of competition law, meaning that Essity must pay fines of EUR 35m, corresponding to SEK 360m, in 2019. The amount has been recognized as a non-current provision in the 2018 year-end accounts but will be reclassified to current liabilities in the first quarter of 2019.

Provisions for the period for Efficiency programs are mainly attributable to restructuring measures at the production facilities of Professional Hygiene and Consumer Tissue. Provisions for the period for Tax risks relate mainly to uncertainty concerning the outcome of ongoing tax audits. Of the provisions for the period for Environment, SEK 89m pertains to a liability for carbon dioxide emissions, which will be paid out in 2019. Provisions for the period for Legal disputes relate mainly to an increased provision in a case for which a provision has already been made.

Dissolutions for the period for Efficiency programs are related to a dozen different restructuring programs from previous years. Dissolution for the period for Tax risks is primarily attributable to a tax dispute in Denmark. Dissolutions for the period for Legal disputes relate to a case in Hungary. Other dissolutions are attributable to a new assessment of risk relating to foreign tax of a non-recurring nature on non-current assets outside Sweden arising from the split of SCA into two listed companies.

The provisions recognized at the end of the period attributable to Efficiency programs relate mainly to restructuring measures at production facilities of Professional Hygiene and Consumer Tissue. Provisions for Tax risks relate mainly to uncertainty concerning the restructuring programs implemented and the outcome of ongoing tax audits. Provisions for Environment pertain mainly to a liability for carbon dioxide emissions. Provisions for legal disputes mainly consist of reserves for cases relating to Spain, Chile, the Andean Community (CAN) and France. Other provisions mainly comprise reserves in connection with foreign tax of a non-recurring nature on non-current assets outside Sweden and grants received for future investment commitments in Italy.

E. CAPITAL STRUCTURE AND FINANCING

E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL

AP ACCOUNTING PRINCIPLES

Financial instruments recognized in the balance sheet include cash and cash equivalents, securities, other financial receivables, trade receivables, trade payables, loans and derivatives.

Current investments and derivatives are recognized on the trade date. Financial assets and loans are recognized on the settlement date. Trade receivables and trade payables are recognized in the balance sheet once the invoice has been sent or received, respectively.

Financial assets are initially recognized at cost, and transaction costs are included for certain instruments that are not measured at fair value. Financial assets are recognized in the balance sheet until the rights in the agreement have been realized or the company no longer has the rights to the asset. Financial assets measured at amortized cost are continuously reviewed according to the expected loss model to assess the need for credit loss provisions.

Financial liabilities are recognized at amortized cost, except in cases where they are recognized at fair value using hedge accounting. Financial liabilities are derecognized from the balance sheet when Essity has met its commitments.

Essity recognizes financial instruments with a remaining maturity of less than 12 months as current assets and liabilities and those that exceed 12 months as non-current assets and liabilities.

Fair value measurement

For the financial instruments for which market quotations are available, actual prices are used for fair value measurement (Level 1). In the absence of market quotations for the instruments, Essity determines fair values with the aid of common valuation models, using quoted prices of similar assets or liabilities in active markets (Level 2).

The fair value of non-current loans measured at prevailing market interest rates is presented in Note E4 Financial liabilities on page 92. The fair value of short-term loans and investments is considered to correspond to the carrying amount, since a change in market interest rates does not have a significant effect on market value.

Classification and subsequent recognition

Classification is carried out in accordance with IFRS 9 in 2018. Under IFRS 9, financial assets are to be classified on the basis of the company's business model and the purpose of contractual cash flows.

Amortized cost

Financial assets held to collect contractual cash flows, and whose cash flows only consist of interest and the principal amount, are to be measured at amortized cost. The main rule is that financial liabilities are measured at amortized cost with the exception of the liabilities described in the measurement categories below. Since the majority of Essity's financial assets is held to collect contractual cash flows and are held to maturity, they are recognized at amortized cost according to the effective interest method. All liabilities, excluding derivatives, and the liabilities included in a hedging relationship, are measured at amortized cost.

Fair value through comprehensive income

Financial assets held to collect contractual cash flows, and which only consist of interest and the principal amount, and to sell the asset before maturity, are measured at fair value through other comprehensive income with the option to recirculate to profit or loss. Essity did not recognize any assets in this category during the year.

For financial assets comprising an equity instrument, the company can, on initial recognition, make an irrevocable choice to recognize the asset at fair value through comprehensive income without the option of recirculation to profit or loss. Essity has an asset valued at SEK 87m recognized in this category.

Fair value through profit or loss

Financial assets that do not fulfill the requirements as stated in the categories stated above are to be measured at fair value through profit or loss. Financial assets and liabilities can, on initial recognition, irrevocably and under certain circumstances, be recognized at fair value through profit or loss if this leads to more relevant information. Derivatives are recognized at fair value through profit or loss. During the year, Essity did not recognize any financial assets or liabilities, except for derivatives and liabilities that are part of a hedging relationship, in this category. For more information, refer to Note E6 Derivatives and hedge accounting on page 93.

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized in accordance with the accounting principles stated in Note E6 Derivatives and hedge accounting on page 93.

In 2017 and 2016, Essity classified it's financial instruments in accordance with IAS 39 in the following categories.

Financial assets measured at fair value through profit or loss

Assets are classified in this category when the intention is to sell in the short term.

This category also includes derivatives with positive market values not recognized using hedge accounting. Only financial derivatives were classified in this category during 2017 and 2016.

Held-to-maturity investments

Financial assets that have determinable payments and that Essity intends to hold to maturity are included in this category. Assets in this category are measured at amortized cost applying the effective interest method, which means they are accrued so that a constant return is obtained.

Loan and trade receivables

This category comprises loan receivables that have determinable payments and are not quoted in an active market, as well as trade receivables. Receivables arise when Essity provides money, goods or services directly to another party with the intention to collect the contractual cash flows at maturity. Assets in this category are measured at amortized cost less a potential provision for impairment.

Available-for-sale financial assets

This category includes assets that are available for sale or that have not been classified in any of the other categories. These assets are measured at fair value through other comprehensive income.

Financial liabilities measured at fair value through profit or loss

This category includes derivatives with negative fair values that are not used for hedge accounting and financial liabilities held for trading. Liabilities in this category are continuously measured at fair value and changes in value are recognized in profit or loss. Only derivatives were classified in this category during 2017 and 2016.

Financial liabilities measured at amortized cost

This category includes financial liabilities that are not held for trading. These are recognized initially at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method.

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized in accordance with the accounting principles stated in Note E6 Derivatives and hedge accounting on page 93.

E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL, CONT.

Financial instruments by category and measurement level

SEKm	Note	Measurement level	2018	2017	2016
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	36	13	52
Derivatives – Other non-current assets		2	–	–	48
Derivatives – Current financial assets	E2	2	198	771	169
Derivatives – Other current receivables	D4	2	59	33	171
Total			**293**	**817**	**440**
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	16,083	16,292	16,021
Current financial liabilities	E4	2	905	–	425
Derivatives – Non-current financial liabilities	E4	2	58	21	19
Derivatives – Current financial liabilities	E4	2	327	396	502
Derivatives – Other current liabilities	D5	2	14	18	55
Total			**17,387**	**16,727**	**17,022**
Loan and trade receivables measured at amortized cost					
Non-current financial assets	E2	–	28	27	24
Current financial assets	E2	–	95	274	61
Trade receivables	E3	–	18,687	17,607	15,843
Cash and cash equivalents	E2	–	3,008	4,107	4,244
Total			**21,818**	**22,015**	**20,172**
Financial assets measured at fair value through other comprehensive income					
Non-current financial assets	E2	1	87	–	–
Available-for-sale financial assets					
Non-current financial assets	E2	1	–	87	82
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	27,359	31,312	15,256
Current financial liabilities	E4	–	9,580	6,689	4,059
Trade payables	–	–	15,911	14,748	12,972
Total			**52,850**	**52,749**	**32,287**
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	483	425	556
Other non-current assets	–	2	85	78	106
Other current receivables	D4	2	265	175	143
Current financial assets	E2	2	129	60	14
Total			**962**	**738**	**819**
Non-current financial liabilities	E4	2	–	12	3
Other non-current liabilities	D5	2	8	5	2
Current financial liabilities	E4	2	15	116	103
Other current liabilities	D5	2	21	24	21
Total			**44**	**157**	**129**

These financial instruments are measured at fair value, with the exception of loans and trade receivables and financial liabilities measured at amortized cost. According to Essity's assessment, the fair value essentially corresponds to the carrying amount, with the exception of non-current liabilities, the fair value of which is disclosed in Note E4 Financial liabilities on page 92.

Measurement levels

Level 1: Quoted prices on an active market for identical assets or liabilities, such as shares or bonds quoted on the stock exchange.

Level 2: Other observable inputs for the asset or liability than quoted prices included in Level 1, either directly (price quotations) or indirectly (obtained from price quotations), such as forward contracts or interest rate swaps.

Financial instruments in other notes to the balance sheet

SEKm	Note	2018 Financial instruments	2018 Of which derivatives	2017 Financial instruments	2017 Of which derivatives	2016 Financial instruments	2016 Of which derivatives
Assets							
Financial assets, cash and cash equivalents	E2	4,064	846	5,764	1,269	5,202	791
Other non-current assets		85	85	78	78	154	154
Trade receivables	E3	18,687	–	17,607	–	15,843	–
Other current receivables	D4	324	324	208	208	314	314
Total		**23,160**	**1,255**	**23,657**	**1,555**	**21,513**	**1,259**
Liabilities							
Financial liabilities	E4	54,327	400	54,838	545	36,388	627
Other non-current liabilities	D5	8	8	5	5	2	2
Trade payables		15,911	–	14,748	–	12,972	–
Other current liabilities	D5	35	35	42	42	76	76
Total		**70,281**	**443**	**69,633**	**592**	**49,438**	**705**

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

AP ACCOUNTING PRINCIPLES

Cash and cash equivalents are defined as cash and bank balances as well as current investments with a maturity of less than three months from the acquisition date. Restricted deposits are not included in cash and cash equivalents. Loan receivables are recognized at amortized cost.

Financial assets measured at amortized cost are continuously reviewed to assess the need for credit loss provisions.

Financial assets, cash and cash equivalents

SEKm	Carrying amount 2018	2017	2016
Non-current financial assets			
Financial assets measured at fair value through other comprehensive income	87	–	–
Available-for-sale financial assets	–	87	82
Financial assets measured at amortized cost			
Loan receivables, other	28	27	24
Derivatives	519	438	608
BS **Total**	**634**	**552**	**714**
Current financial assets			
Financial assets measured at amortized cost			
Financial assets	22	19	19
Loan receivables, other	73	255	42
Derivatives	327	831	183
BS **Total**	**422**	**1,105**	**244**
Cash and cash equivalents			
Cash and bank balances	2,611	3,365	2,888
Current investments < 3 months	397	742	1,356
BS **Total**	**3,008**	**4,107**	**4,244**
Total financial assets, cash and cash equivalents	**4,064**	**5,764**	**5,202**

Financial assets measured at fair value through comprehensive income relate to an equity instrument which on transition to IFRS 9 was irrevocably classified in this category without any option of recirculation due to the long-term nature of the holding. The holding relates to shares in pension assets attributable to certain pension obligations. These assets are not included in

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS, CONT.

the normal pension calculations, as set out in Note C5 Remuneration after termination of employment on page 82. For 2017 and 2016, this asset was recognized in Available-for-sale financial assets. Changes in value excluding exchange gains and losses are recognized in equity under other comprehensive income, while exchange gains and losses are recognized in profit or loss.

Cash and cash equivalents at December 31, 2018 include SEK 2,260m (1,974; 1,672) that is not fully available for use by Essity or for which other limitations exist, primarily cash and cash equivalents in countries that are subject to exchange restrictions and other legal restrictions. Accordingly, it is not possible to immediately use these cash and cash equivalents in other areas of the Group, although it is normally possible to use them in the operations of the respective country. These cash and cash equivalents can also be used to repay local debts in the respective countries. Such liabilities in these countries amounts to SEK 1,045m (821; 1,361).

E3. TRADE RECEIVABLES

AP ACCOUNTING PRINCIPLES

Trade receivables are recognized at amortized cost after a provision is made for doubtful receivables. As of 2018, provisions for doubtful receivables are made using the simplified impairment method that can be selected according to the expected loss model in IFRS 9 for trade receivables with an amount that corresponds to the expected credit losses for the remaining terms of all outstanding trade receivables as per the balance sheet date. The calculation of the impairment requirement for doubtful receivables is based on a combination of a collective and individual assessment. A collective assessment is based on experience from the historical confirmed total credit loss level in relation to total sales in the most recent five-year period adjusted for changes in credit risk based on current and forward-looking information regarding macroeconomic factors that can impact the payment capacity of customers. The collective assessment is therefore adjusted when necessary to take into account changed credit risk due to material changes in financial stability, GDP and employment in the countries where Essity conducts the majority of its sales. Individual assessment of the need to impair doubtful receivables is made in cases when it has been determined that the customer is experiencing financial problems, when no payment has been received for receivables that have long fallen due or because of other significant changes, such as financial crises or natural disasters.

At the beginning of 2018, confirmed credit losses on trade receivables for the years 2014–2017 averaged 0.03% of net sales. In conjunction with the implementation of IFRS 9, Essity has, on the basis of this loss level, recognized a non-recurring effect in the opening balance for 2018 and reduced trade receivables by SEK 9m and equity by SEK 7m after deferred tax on account of the changed accounting principles.

Previously, the impairment of trade receivables was based on the incurred loss model, according to which individual provisions were made for trade receivables that were not expected to be received due to known financial problems of the customer or when payment had not been received for older, overdue trade receivables despite several reminders and overdue notices. The major difference compared with the earlier principle is that Essity now also makes a provision for expected credit losses on trade receivables that have not fallen due or have fallen due for less than 90 days.

An impairment of trade receivables due to a possible credit loss impacts Essity's operating profit as a selling cost in profit or loss and as a reduction of trade receivables by increasing the reserve for doubtful receivables in the balance sheet. When the credit loss has been confirmed, the trade receivable is written off against the provision to reserves for doubtful receivables. A credit loss is regarded as confirmed when it has been determined that the customer is unable to fulfill the legal obligation to pay Essity, when debt-collection measures are no longer cost efficient, the customer's operations have ceased or the customer has been declared bankrupt and this process has ended.

Essity's trade receivables are generally current and are not discounted. Note G5 Changes due to new accounting rules on page 107 describes the transition method and effects of the transition to IFRS 9 for estimation of credit losses on trade receivables.

Trade receivables

SEKm	2018	2017	2016
Trade receivables, gross	18,963	17,864	16,116
Provision to reserves for doubtful receivables	–276	–257	–273
BS TE3:1 **Total**	**18,687**	**17,607**	**15,843**

TE3:1 Analysis of credit risk exposure in trade receivables

SEKm	2018	2017	2016
Trade receivables, not overdue (net)	16,191	15,529	14,175
Trade receivables, overdue (net)			
< 30 days	1,486	1,389	1,161
30–90 days	593	425	276
> 90 days	417	264	231
Trade receivables, overdue (net)	**2,496**	**2,078**	**1,668**
Total	**18,687**	**17,607**	**15,843**

Essity's customer structure is dispersed, with customers in many different areas of business. In 2018, Essity's ten largest customers accounted for 23.6% (22.9; 26.6) of Essity's sales. The single largest customer accounted for 4.4% (3.6; 4.0) of sales.

Including confirmed credit losses in 2018, the average confirmed credit losses on trade receivables over the past five years has declined from 0.03% to 0.02% of net sales. This, combined with Essity's overall assessment that the credit risk in the countries where Essity conducts the majority of its sales has not changed materially in 2018, has meant that only a minor adjustment has been made to the collective assessment (see accounting principles above) regarding the expected impairment requirement for doubtful receivables.

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 939m (1,329; 867). Of this amount, SEK 107m (203; 59) relates to the category trade receivables overdue but not impaired.

Provision to reserves for doubtful receivables

SEKm	2018	2017	2016
Value, January 1	**–257**	**–273**	**–209**
Provision for possible credit losses	–52	–61	–95
Confirmed losses	15	12	21
Increase due to acquisitions	–	–53	–
Decrease due to reversal of provisions for possible credit losses	23	116	15
Translation differences	–6	2	–5
Value, December 31	**–276**	**–257**	**–273**

The expense for the period for doubtful receivables amounted to SEK –28m (–55; –80).

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

The main principle for recognition of Essity's financial liabilities is that they are initially measured at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method.

In cases where loans with fixed interest rates are hedged using derivatives, both the loan and the derivative are recognized at fair value through a fair value hedge. Non-current loans that are subject to hedge accounting are discounted to the market interest rate without a credit spread. The cash flows from the interest rate derivatives are discounted to the market interest rate and the changes in value are recognized in profit or loss.

Financial liabilities

SEKm	2018	2017	2016
Current financial liabilities			
Amortization within one year	347	269	256
Bond issues	3,005	2,946	–
Derivatives	342	512	604
Loans with maturities of less than one year	6,948	3,305	4,132
Accrued financial expenses	185	169	97
BS Total[1]	**10,827**	**7,201**	**5,089**
Non-current financial liabilities			
Bond issues	34,247	35,687	18,708
Derivatives	58	33	23
Other non-current loans with maturities > 1 year < 5 years	6,884	9,876	8,078
Other non-current loans with maturities > 5 years	2,311	2,041	4,490
BS Total	**43,500**	**47,637**	**31,299**
Total financial liabilities	**54,327**	**54,838**	**36,388**
Fair value of financial liabilities	54,434	54,227	36,719

1) Fair value of current loans is estimated to be the same as the carrying amount.

Borrowing

Essity has a Euro Medium Term Note (EMTN) program with a program amount of EUR 6,000m (SEK 61,633) for issuing bonds in the European capital market. As of December 31, 2018, a nominal EUR 3,728m (4,188; 2,217) was outstanding with a remaining maturity of 4.2 years (4.7; 4.8).

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate, %
Notes SEK 500m	2019	500	500	2.5
Notes SEK 900m	2019	905	900	0.75
Notes SEK 1,000m	2019	1,000	1,000	–0.15
Notes SEK 600m	2019	601	601	–0.32
Notes EUR 300m	2020	3,112	3,103	0.50
Notes EUR 500m	2021	5,149	5,161	0.50
Notes EUR 600m	2022	6,136	6,182	0.63
Notes EUR 500m	2023	5,458	5,517	2.50
Notes EUR 600m	2024	6,139	6,216	1.13
Notes EUR 300m	2025	3,153	3,083	1.13
Notes EUR 500m	2027	5,100	5,165	1.63
Total		**37,253**	**37,428**	

Non-current financial liabilities	Carrying amount, SEKm	Fair value, SEKm
Other non-current loans with maturities > 1 year < 5 years	6,884	7,025
Other non-current loans with maturities > 5 years	2,311	2,284
Total	**9,195**	**9,309**

Essity has a Swedish and a Belgian commercial paper program that can be utilized for current borrowing.

Commercial paper program[1]

Program size	Issued SEKm
Commercial paper SEK 15,000m	551
Commercial paper EUR 800m	2,880
Total	**3,431**

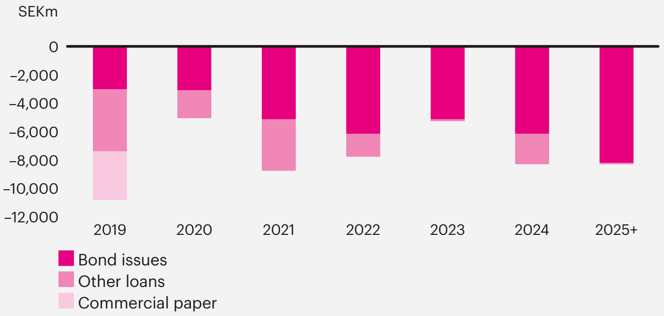
1) Included in Loans with maturities of less than one year in the Financial liabilities table.

Essity has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. Contracted bilateral credit facilities with banks are used to supplement these syndicated bank facilities.

Credit facilities

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 1,000m	2021	10,277	–	10,277
	EUR 1,000m	2024	10,277	–	10,277
Total			**20,554**	–	**20,554**

Maturity profile of gross debt[1]



1) Gross debt includes accrued interest in the amount of SEK 318m.

After additions for net pension provisions and with deductions for cash and cash equivalents, interest-bearing receivables and capital investment shares, the net debt was SEK 54,404m (52,467; 35,173). For a description of the methods used by Essity to manage its refinancing risk, refer to the Risks and risk management section on page 33.

E5. LIQUIDITY RISK

The table below shows the Group's liquidity risk regarding financial liabilities (including interest payments), net settled derivatives that constitute financial liabilities and negative cash flows from gross settled derivatives. For a description of the methods used by Essity to manage its liquidity risk, refer to the Risks and risk management section on page 38.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
2018				
Loans including interest	10,998	14,864	13,686	16,975
Net settled derivatives	0	0	0	–
Energy derivatives	22	8	–	–
Trade payables	15,786	125	–	–
Total	**26,806**	**14,997**	**13,686**	**16,975**
Gross settled derivatives[1]	57,937	2,101	466	
2017				
Loans including interest	7,014	10,814	18,277	21,255
Net settled derivatives	–11	–22	–4	–
Energy derivatives	11	3	–	–
Trade payables	14,589	159	–	–
Total	**21,603**	**10,954**	**18,273**	**21,255**
Gross settled derivatives[1]	65,401	1,921	1,414	–
2016				
Loans including interest	4,791	10,069	10,964	11,475
Net settled derivatives	–6	–16	–11	–
Energy derivatives	29	1	–	–
Trade payables	12,790	182	–	–
Total	**17,604**	**10,236**	**10,953**	**11,475**
Gross settled derivatives[1]	38,315	2,392	51	1,373

1) The gross settled derivatives have, largely, corresponding positive cash flows and therefore, in the opinion of Essity, do not constitute any real liquidity risk.

E6. DERIVATIVES AND HEDGE ACCOUNTING

AP ACCOUNTING PRINCIPLES

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized as described below. When using hedge accounting, the relationship between the hedging instrument and the hedged item is documented. Assessment of the effectiveness of the hedge is also documented, both when the transaction is initially executed and on an ongoing basis. Hedge effectiveness is the extent to which the hedging instrument offsets changes in value in a hedged item's fair value or cash flow. The ineffective portion is recognized directly in profit or loss.

Cash flow hedges

Gains and losses on remeasurement of derivatives intended for cash flow hedges are recognized in equity under other comprehensive income and reversed to profit or loss at the rate at which the hedged cash flow affects profit or loss. If a hedge relationship is interrupted and cash flow is still expected, the result is recognized in equity under other comprehensive income until the cash flow affects the result. If the hedge pertains to a balance sheet item, the result is transferred from equity to the asset or liability to which the hedge relates when the value of the asset or liability is determined for the first time. In cases in which the forecast cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative gain or loss that is recognized in equity under other comprehensive income is transferred directly to profit or loss. Cash flow hedges relating to energy are recognized as energy costs, that is, cost of goods sold. Cash flow hedges related to transaction exposure are recognized in consolidated net sales and expenses. Cash flow hedges relating to interest expenses are recognized in net financial items.

Hedges of net investments in foreign operations

Gains and losses on remeasurement of derivatives intended to hedge Essity's net investments in foreign operations are recognized in equity under other comprehensive income. The cumulative gain or loss in equity is recognized in profit or loss in the event of divestment of the foreign operation.

Fair value hedges

The gain or loss from remeasurement of a derivative relating to fair value hedges is recognized in profit or loss together with changes in fair value of the hedged asset or liability. For Essity, this means that non-current loans that are subject to hedge accounting are discounted without a credit spread to the market interest rate and meet inherent interest rate derivatives' discounted cash flows at the same interest rate.

Economic hedges

When Essity conducts hedges and the transactions do not meet requirements for hedge accounting according to IFRS 9, changes in fair value of the hedging instrument are recognized directly in profit or loss.

Outstanding derivatives

SEKm	Total	Of which Currency[1]	Of which Interest rate	Of which Energy
2018				
Nominal	80,623	60,744	17,935	1,944
Asset	1,255	370	489	396
Liability	443	412	1	30
2017				
Nominal	86,503	69,073	15,885	1,545
Asset	1,555	891	425	239
Liability	592	565	12	15
2016				
Nominal	56,599	38,695	16,094	1,810
Asset	1,259	351	561	347
Liability	705	664	11	30

[1] Nominal SEK 69,588m (100,661; 110,115) is outstanding before the right of set-off.

Balance sheet

Essity uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how Essity manages these risks, refer to the section on Risk and risk management on page 33. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2018. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category on page 90.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2018		
Gross amount	1,275	463
Offsettable amount	–20	–20
Net amount recognized in the balance sheet	1,255	443
ISDA agreements whose transactions are not offset in the balance sheet	–347	–347
Collateral received	–98	
Net after offsetting in accordance with ISDA agreements	**810**	**96**
December 31, 2017		
Gross amount	1,669	706
Offsettable amount	–114	–114
Net amount recognized in the balance sheet	1,555	592
ISDA agreements whose transactions are not offset in the balance sheet	–471	–471
Net after offsetting in accordance with ISDA agreements	**1,084**	**121**
December 31, 2016		
Gross amount	2,394	1,840
Offsettable amount	–1,135	–1,135
Net amount recognized in the balance sheet	1,259	705
ISDA agreements whose transactions are not offset in the balance sheet	–288	–288
Net after offsetting in accordance with ISDA agreements	**971**	**417**

Income statement

Hedges pertaining to transaction exposure had an impact of SEK 92m (–106; 64) on operating profit for the period. At year-end, the net market value amounted to SEK 0m (–9; 45). Currency hedges increased the cost of non-current assets by SEK 1m (increased: 10; reduced: 5). At year-end, the net market value amounted to SEK –1m (20; 24). Energy derivatives had an impact of SEK 396m (90; –239) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 366m (225; 317) at year-end. Derivatives impacted net interest items in an amount of SEK –362m (–289; –68). The net market value of outstanding interest rate derivatives amounted to SEK 489m (413; 550) at year-end. For further information relating to net financial items, see Note E7 Financial income and expenses on page 96.

Sensitivity analysis

Essity has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2018 using assumptions on market movements that are regarded as reasonably possible in one year's time. If the Swedish krona had unilaterally weakened/strengthened by 5% against all currencies, outstanding financial hedges, trade payables and trade receivables would have decreased/increased profit for the period before tax by SEK 7m (54; 4).

If the Swedish krona had unilaterally weakened/strengthened by 5%, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 0m (0; 1). If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 299m (214; 203). In addition to the earnings impact, equity would have increased/decreased by SEK 136m (120; 107). However, the total energy cost for the Group would have been affected differently if the price risk related to supply contracts was taken into account.

Derivatives with hedge accounting

The various risk management strategies are presented in the Risks and risk management section on page 33. The derivatives to which hedge accounting is applied are presented below. Essity also continuously hedges the transaction exposure and energy price risks for the risks that are recognized in the balance sheet and income statement. Hedge accounting is not applied in respect of these risks. For currency derivatives, the revaluation from the risks meets derivatives in the financial positions. For energy derivatives, the result is recognized in profit or loss.

IFRS 9, which came into effect on January 1, 2018, provides the option of hedging risk components. In 2018, Essity did not utilize this option except for energy, where Essity in the Nordic region hedges the system price, which is a sub-component. The hedging ratio for the various risks for which hedge accounting is prepared is consistently 1:1.

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Cash flow hedges

Cash flow hedges for currency risk are prepared for transaction exposure, large investments and energy price risks in connection with purchases of electricity and gas. For cash flow hedges, hedges are prepared whereby critical terms match the hedged item. For the cash flow hedges prepared, this means that the change in fair value of the hedging instruments and the change in the hedged item are very highly correlated. Any ineffectiveness could, for example, be due to the time or the amount of the forecast cash flow mismatching with the cash flow of the derivative. In 2018, SEK 0m (0, 0) was recognized in profit or loss as ineffectiveness concerning the cash flow hedges. Currency derivatives mature within one year, while energy derivatives mature in December 2020.

Hedging of net investments

Essity has hedged net investments in a number of selected legal entities in order to achieve the desired currency distribution of net debt relative to assets so that performance measures that are important to the company's credit rating can be protected in the long term. The result of hedging positions affected equity by a total of SEK –122m (–1,968, –437). This result is largely due to hedges of net investments in USD and EUR. In 2018, SEK 0m (0, 0) was recognized in profit or loss as ineffectiveness. The total market value of outstanding hedging transactions at the end of the period was SEK 353m (170; 167). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK –18,794m. The Essity Group's total foreign net investments at year-end amounted to SEK 65,679m. Primarily currency derivatives are used to hedge net investments. Loans in foreign currency (EUR) were also used to hedge net investments in 2018.

Fair value hedges

For fair value hedges, the hedges have the same nominal amount, maturity dates and fixed interest as the hedged item. Hedge ineffectiveness is attributable, for example, to the various discount curves for the hedging instrument and the hedged item. Hedge ineffectiveness per maturity date is presented in the table below. Ineffectiveness is recognized in Net financial items under the item Fair value hedges, unrealized. See Note E7 Financial income and expenses on page 96.

		2018		2017		2016	
Currency and energy derivatives, SEKm	**Line in the Balance sheet**	**Nominal amount**	**Carrying amount**	**Nominal amount**	**Carrying amount**	**Nominal amount**	**Carrying amount**
Currency derivatives – cash flow hedges	Other non-current assets			60	7	11	0
Currency derivatives – cash flow hedges	Other current receivables	270	3	267	26	159	6
Currency derivatives – cash flow hedges	Other non-current liabilities			13	2	72	1
Currency derivatives – cash flow hedges	Other current liabilities	179	4	266	13	171	5
Energy derivatives – cash flow hedges	Other non-current assets	588	85	544	70	498	106
Energy derivatives – cash flow hedges	Other current receivables	901	262	712	146	655	135
Energy derivatives – cash flow hedges	Other non-current liabilities	128	8	63	3	13	1
Energy derivatives – cash flow hedges	Other current liabilities	281	17	148	11	188	17
Currency derivatives – hedging of net investments	Non-current financial assets			–	–		
Currency derivatives – hedging of net investments	Current financial assets	10,470	143	4,303	60	12,839	704
Currency derivatives – hedging of net investments	Non-current financial liabilities			–	–		
Currency derivatives – hedging of net investments	Current financial liabilities	2,726	15	18,599	230	26,276	537

Interest rate derivatives – hedging of fair value, SEKm

					Line in the balance sheet		
Maturity date	**Nominal amount**	**Change in fair value, hedged item**	**Change in fair value, derivatives**	**Ineffectiveness**	**Financial assets**	**Financial liabilities**	**Variable interest**
2018							
Current derivatives							
2019	900	7	–7	0	6		Stibor +0.506
Non-current derivatives							
2020	3,083	4	–4	0	29		Euribor 6m +0.2827–0.2829
2021	5,139	–35	34	–1	22		Euribor 6m +0.5502–0.5527
2022	180	3	–3	0	6		Euribor 3m +0.698
2023	4,111	–13	6	–7	355		Euribor 6m +0.7215–0.73165
2025	3,083	–45	45	0	71		Euribor 6m +0.514–0.5168
	16,496	**–79**	**71**	**–8**	**489**		
2017							
Current derivatives							
2018							
Non-current derivatives							
2019	900	–2	2	0	12		Stibor +0.506
2020	2,952	–6	7	1	33		Euribor 6m +0.2827–0.2829
2021	4,920	–10	12	2		12	Euribor 6m +0.5502–0.5527
2022	226	–4	4	0	9		Euribor 3m +0.698
2023	3,936	–80	114	34	346		Euribor 6m +0.7215–0.73165
2025	2,952	–40	35	–5	25		Euribor 6m +0.514–0.5168
	15,886	**–142**	**174**	**32**	**425**	**12**	
2016							
Current derivatives							
2017	419	–45	45	0	5	5	USDLibor +0.8
Non-current derivatives							
2019	900	12	–12	0	15		Stibor +0.506
2020	2,867	38	–35	3	38		Euribor 6m +0.2827–0.2829
2021	4,779	–16	13	–3		3	Euribor 6m +0.5502–0.5527
2022	271	48	–48	0	13		Euribor 3m +0.698
2023	3,823	160	–148	12	426		Euribor 6m +0.7215–0.73165
2025	2,867	140	–128	12	64		Euribor 6m +0.514–0.5168
	15,926	**337**	**–313**	**24**	**561**	**8**	

E8. EQUITY, CONT.

SEKm	Share capital	TE8:1 Reserves	Retained earnings	Equity attributable to Essity's shareholders	Non-controlling interests	Total equity
Value, January 1, 2017	**0**	**4,061**	**29,143**	**33,204**	**6,376**	**39,580**
IS **Profit for the period recognized in profit or loss**			**8,116**	**8,116**	**669**	**8,785**
Other comprehensive income for the period						
Items that may not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans[1]			1,065	1,065	–4	1,061
TE8:2 Income tax attributable to components in other comprehensive income			–218	–218	–	–218
			847	**847**	**–4**	**843**
Items that have been or may be reclassified subsequently to the income statement						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity				0		0
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		35		35		35
Transferred to profit or loss for the period		–56		–56		–56
Transferred to cost of hedged investments		10		10		10
Acquired cash flow hedges		4	–4	–		–
Translation differences in foreign operations		628		628	–308	320
Gains/losses from hedges of net investments in foreign operations		–1,968		–1,968		–1,968
Other comprehensive income from associates			–22	–22		–22
TE8:2 Income tax attributable to components in other comprehensive income		440	–1	439		439
Other comprehensive income for the period, net of tax		**–907**	**820**	**–87**	**–312**	**–399**
Comprehensive income for the period		**–907**	**8,936**	**8,029**	**357**	**8,386**
Bonus issue	2,350		–2,350	–		–
Private placement to non-controlling interests			504	504	465	969
Private placement to non-controlling interests, dilution			–290	–290	290	–
Acquisition of non-controlling interests				–	78	78
Transactions with shareholders			842	842	–	842
Dividend to non-controlling interests				–	–285	–285
BS **Value, December 31**	**2,350**	**3,154**	**36,785**	**42,289**	**7,281**	**49,570**
Value, January 1, 2016	**0**	**1,501**	**41,485**	**42,986**	**5,289**	**48,275**
IS **Profit for the period recognized in profit or loss**			**3,800**	**3,800**	**442**	**4,242**
Other comprehensive income for the period						
Items that may not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans[1]			–1,570	–1,570	1	–1,569
TE8:2 Income tax attributable to components in other comprehensive income			421	421	–	421
			–1,149	**–1,149**	**1**	**–1,148**
Items that have been or may be reclassified subsequently to the income statement						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity		–1		–1		–1
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		275		275		275
Transferred to profit or loss for the period		274		274		274
Transferred to cost of hedged investments		–19		–19		–19
Translation differences in foreign operations		2,508		2,508	234	2,742
Gains/losses from hedges of net investments in foreign operations		–437		–437		–437
Other comprehensive income from associates			12	12		12
TE8:2 Income tax attributable to components in other comprehensive income		–40	–1	–41		–41
Other comprehensive income for the period, net of tax		**2,560**	**–1,138**	**1,422**	**235**	**1,657**
Comprehensive income for the period		**2,560**	**2,662**	**5,222**	**677**	**5,899**
Private placement to non-controlling interests			240	240	199	439
Private placement to non-controlling interests, dilution			–110	–110	110	–
Issue expenses, private placement			–4	–4	–4	–8
Acquisition of non-controlling interests			–799	–799	643	–156
Acquisition of non-controlling interests, dilution			348	348	–348	–
Transactions with shareholders			–14,679	–14,679	–	–14,679
Dividend to non-controlling interests				–	–190	–190
BS **Value, December 31**	**0**	**4,061**	**29,143**	**33,204**	**6,376**	**39,580**

1) Including payroll tax.
2) Dividend of SEK 5.75 per share pertains to owners of the Parent. For the 2018 fiscal year, the Board of Directors has decided to propose a divided of SEK 5.75 per share to the Annual General Meeting.

E8. EQUITY, CONT.

TE8:1 Equity, specification of reserves

SEKm	Revaluation reserve[1] 2018	Revaluation reserve[1] 2017	Revaluation reserve[1] 2016	Hedge reserve[2] 2018	Hedge reserve[2] 2017	Hedge reserve[2] 2016	Available-for-sale assets 2018	Available-for-sale assets 2017	Available-for-sale assets 2016	Fair value through comprehensive income 2018	Fair value through comprehensive income 2017	Fair value through comprehensive income 2016	Translation reserve 2018	Translation reserve 2017	Translation reserve 2016
Value, January 1	**107**	**107**	**107**	**166**	**164**	**–229**	**6**	**6**	**7**	**–**			**2,875**	**3,784**	**1,616**
Reclassification							–6			6					
Measured at fair value through other comprehensive income										–5					
Available-for-sale financial assets:															
Result from measurement at fair value recognized in equity									–1						
Cash flow hedges:															
Result from remeasurement of derivatives recognized in equity				471	35	275									
Transferred to profit or loss for the period				–378	–56	274									
Transferred to cost of hedged investments				–	10	–19									
Acquired cash flow hedges					4										
Translation differences in foreign operations[3]				6	2	–1				2			1,868	626	2,509
Gains/losses from hedges of net investments in foreign operations													–122	–1,968	–437
Tax on items recognized directly in/transferred from equity				–21	7	–136				1			26	433	96
Other comprehensive income for the period, net of tax				**78**	**2**	**393**	**–6**		**–1**	**4**			**1,772**	**–909**	**2,168**
Transfer from equity to cost of hedged investments, net of tax				1											
Value, December 31	**107**	**107**	**107**	**245**	**166**	**164**	**–**	**6**	**6**	**4**			**4,647**	**2,875**	**3,784**

1) Revaluation reserve includes effect on equity of step acquisitions.
2) See also Note E6 Derivatives and hedge accounting on page 93 for details of when gains or losses are expected to be recognized.
3) Transfer to profit or loss of realized exchange gains/losses relating to divested companies is included in the amount of SEK 0m (–19; –13).

TE8:2 Specification of income tax attributable to components in other comprehensive income

SEKm	2018 Before tax	2018 Tax effect	2018 After tax	2017 Before tax	2017 Tax effect	2017 After tax	2016 Before tax	2016 Tax effect	2016 After tax
Actuarial gains/losses on defined benefit pension plans	–1,036	175	–861	1,061	–218	843	–1,569	421	–1,148
Measured at fair value through other comprehensive income	–5	1	–4						
Available-for-sale financial assets	–	–	–	–	–	–	–1	–	–1
Cash flow hedges	93	–21	72	–11	7	–4	530	–136	394
Translation differences in foreign operations	2,080	–	2,080	320	–	320	2,742	–	2,742
Other comprehensive income from associates	23	–1	22	–22	–1	–23	12	–1	11
Gains/losses from hedges of net investments in foreign operations	–122	26	–96	–1,968	433	–1,535	–437	96	–341
Other comprehensive income for the period	**1,033**	**180**	**1,213**	**–620**	**221**	**–399**	**1,277**	**380**	**1,657**

At December 31, 2018, the debt/equity ratio amounted to 0.99 (1.06; 0.89). Changes in liabilities and equity are described in the Financial position section on page 32. Essity's target for capital structure is to establish an effective capital structure, while at the same time ensuring long-term access to loan financing. Cash flow in relation to net debt is to be taken into consideration with the aim of maintaining a solid investment grade rating.

Essity has a credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. Essity's financial risk management is described in the Risk and risk management section on page 33. The Essity share section on page 6 outlines Essity's dividend policy, while its capital structure is described in the Objectives, targets and outcomes section on page 12.

Transactions with shareholders

Specification of transactions with shareholders

SEKm	2018	2017	2016
Dividend/Group contribution	–	–255	–4,637
Contributions received	–	903	1,271
Tax effect	–	194	599
Transfer of net assets till SCA's forest products business[1]	–	–	–11,912
Total	–	**842**	**–14,679**

1) The take over by Essity Aktiebolag (publ) on December 30, 2016 of the majority of the external financing that existed within SCA is the reason for the major change in transactions with shareholders in equity in 2016. For further information, see note G4 Transactions with related parties on page 106.

F. GROUP STRUCTURE

F1. SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Subsidiaries
The companies over which Essity has control are consolidated as subsidiaries. Control means that Essity has sufficient influence to control the activities of the subsidiary, has the right to its returns, has control over its exposure and is able to impact the return of the company through its influence. Most of the Group's subsidiaries are wholly owned, which means that Essity has control over the companies. Essity owns 52% of Vinda, 50% of Familia and 49% of Unicharm Mölnlycke; Essity also has control of these companies, despite the fact that there are significant non-controlling interests in the companies.

Non-controlling interests
Non-controlling interests are recognized as a separate item in the Group's equity. Profit or loss and every component of other comprehensive income are attributable to the owners of the Parent and to non-controlling interests. Losses attributable to non-controlling interests are recognized even if this results in a negative balance for the non-controlling interest. In connection with acquisitions of less than 100% when a controlling influence is achieved, non-controlling interests are determined either as a proportional share of the fair value of identifiable net assets excluding goodwill or at fair value. Subsequent acquisitions up to 100% and divestments of participations in a subsidiary that do not lead to a loss of controlling influence are recognized as an equity transaction.

List of major subsidiaries
The Group's participations in major subsidiaries at December 31, 2018 are presented below. The following selection of wholly owned subsidiaries and subsidiaries with significant non-controlling interests includes companies with external sales in excess of SEK 500m in 2018.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2018	Share of equity at December 31, 2017	Share of equity at December 31, 2016
Essity France SAS	509 395 109	Saint-Ouen, France	100	100	100
Essity Holding Nederlands B.V.	30-135 724	Zeist, Netherlands	100	100	100
SCA Hygiene Products (Fluff) Ltd.	577 116	Dunstable, UK	100	100	100
Essity Professional Hygiene North America LLC	58-2494137	Delaware, USA	100	100	100
Vinda International Holdings Ltd[1]	90235	Hong Kong, China	52	52	55
Essity Operations Wausau LLC	41-2218501	Wisconsin, USA	100	100	100
Essity Germany GmbH	HRB 713 332	Mannheim, Germany	100	100	100
Essity Hygiene and Health AB	556007-2356	Gothenburg, Sweden	100	100	100
Essity Spain S.L.	B28451383	Puigpelat, Spain	100	100	100
Essity Higiene y Salud Mexico, S.A. de C.V.	SCM-931101-3S5	Mexico City, Mexico	100	100	100
Productos Familia S.A. Colombia[1]	8909001619	Medellin, Colombia	50	50	50
Essity Italy S.p.A.	3 318 780 966	Altopascio, Italy	100	100	100
Essity LLC	1024700877200	Moscow, Russia	100	100	100
Essity Poland Sp.z.o.o.	KRS No. 0000427360	Warsaw, Poland	100	100	100
Essity Austria GmbH	FN 49537 z	Vienna, Austria	100	100	100
Essity Belgium SA-NV	BE0405.681.516	Stembert, Belgium	100	100	100
Essity Professional Hygiene Germany GmbH	HRB 710 878	Mannheim, Germany	100	100	100
Essity Canada Inc.	421984	Ontario, Canada	100	100	100
OY Essity Finland AB	0165027-5	Espoo, Finland	100	100	100
Essity HMS North America Inc.	23-3036384	Delaware, USA	100	100	100
Productos Familia del Sancela Ecuador S.A.[1]	1791314379001	Quito, Ecuador	50	50	50
Essity Norway AS	915 620 019	Oslo, Norway	100	100	100
Essity Switzerland AG	CH-020.3.917.992-8	Schenkon, Switzerland	99	99	99
Essity Denmark A/S	DK20 638 613	Allerød, Denmark	100	100	100
Essity Chile SA	94.282.000-3	Santiago de Chile, Chile	100	100	100
Essity Hungary Kft	01-09-716945	Budapest, Hungary	100	100	100
Uni-Charm Mölnlycke KK	0104-01-046146	Tokyo, Japan	49	49	49
Essity Czech Republic s.r.o.	485 36 466	Prague, Czech Republic	100	100	100
Essity Operations Allo SL	B31235260	Allo, Spain	100	100	100
Essity Slovakia s.r.o.	36590941	Gemerska Horska, Slovakia	100	100	100
Essity Operations Mainz-Kostheim GmbH	HRB 5301	Mainz-Kostheim, Germany	100	100	100
Essity Operations France SAS	702 055 187	Saint-Ouen, France	100	100	100
Essity Operations Mannheim GmbH	HRB 3248	Mannheim, Germany	100	100	100
Essity Operations Neuss GmbH	HRB 14343	Neuss, Germany	100	100	100
Essity Operations Poland Sp.z.o.o.	KRS No. 0000086815	Olawa, Poland	100	100	100
Essity Operations Le Theil SAS	509 599 619	Saint-Ouen, France	100	100	100
Essity Operations Manchester Ltd	4119442	Dunstable, UK	100	100	100
BSN medical GmbH	HRB 124 187	Hamburg, Germany	100	100	–
BSN Radiante SAS	652 880 519	Le Mans, France	100	100	–
BSN Medical Distribution Limited	04381725	Willerby, UK	100	100	–
BSN Medical Inc.	3269728	North Carolina, USA	100	100	–
BSN-Jobst GmbH	HRB 3482	Emmerich, Germany	100	100	–
Essity Canary Islands, SL (Sociedad Unipersonal)	B35089242	Telde, Spain	100	100	100
Essity Hijyen Ürünleri Sanayi ve Ticaret A.S.	640954	Istanbul, Turkey	100	100	100
Essity Centroamérica S.A.	3-101-211115	San José, Costa Rica	100	100	100

[1] Essity has a small number of jointly owned subsidiaries with significant non-controlling interests, see TF2:1 on page 100.

F2. JOINTLY OWNED SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Vinda

Vinda is one of China's largest hygiene companies. Essity has been a shareholder in Vinda since 2007, became its majority shareholder in late 2013 and has consolidated Vinda's financials since the first quarter of 2014. In 2014, Essity divested its hygiene business in China, Hong Kong and Macau for integration with Vinda. In 2016, Essity's divestment of its business in Southeast Asia, Taiwan and South Korea for integration with Vinda was approved by the company's independent shareholders and the transaction was completed on April 1, 2016. Following this transaction, Essity's holding amounted to 54.6%. In 2017, Vinda acquired a property via a private placement that diluted Essity's holding to 52%. Vinda's market capitalization on the Hong Kong stock exchange was SEK 16,868m (19,705; 19,329) at the end of the period.

Familia

Familia is 50% owned by Essity and 49.8% owned by the Gomez family. Essity is considered to have a controlling influence over Familia, despite the fact that Essity does not hold a majority of shares in the company. Essity is deemed to have a controlling influence since it has control over the activities with the most significant impact on Familia's return. Familia operates in the South American market and sells Personal Care, Consumer Tissue and Professional Hygiene products. During the year, Familia acquired another subsidiary, see Note F6 on page 103.

Financial information

Financial information is disclosed below for both subsidiaries. Financial information has not been disclosed for other subsidiaries since no other individual subsidiary had a material impact on the Group's earnings and position.

These balance sheets have been presented taking into consideration the recognition of Vinda and Familia in Essity's consolidated financial statements, whereby consideration was given to adjustments for surplus values in connection with acquisitions.

TF2:1 Subsidiaries with significant non-controlling interests, 100% of operations

	Vinda[1]			Familia[1]		
SEKm	2018	2017	2016	2018	2017[3]	2016[3]
Condensed income statement						
Net sales	16,543	14,728	13,297	7,001	6,283	6,075
Operating profit before depreciation/amortization of acquisition-related assets[2]	1,133	1,074	1,038	939	934	501
Operating profit[2]	1,127	1,067	1,038	947	934	501
Profit for the period	720	670	685	631	649	236
of which attributable to owners of the Parent	374	348	374	317	316	115
Other comprehensive income for the period	161	163	–94	–22	–325	383
of which attributable to owners of the Parent	84	85	–51	–61	–152	204
Comprehensive income for the period	**881**	**833**	**591**	**609**	**324**	**619**
of which attributable to owners of the Parent	458	433	323	256	164	319
of which attributable to non-controlling interests	423	400	268	353	160	300
Dividend to non-controlling interests	125	107	55	227	122	87
Condensed balance sheet						
Non-current assets	19,834	18,324	17,327	3,231	2,450	2,681
Current assets	6,552	6,209	5,669	3,101	3,131	2,837
Total	**26,386**	**24,533**	**22,996**	**6,332**	**5,581**	**5,518**
Equity attributable to owners of the Parent	8,373	7,871	7,573	1,975	1,946	1,905
Equity attributable to non-controlling interests	5,753	5,348	4,503	1,888	1,762	1,724
Non-current liabilities	5,799	5,730	5,394	811	394	475
Current liabilities	6,461	5,584	5,526	1,658	1,479	1,414
Total	**26,386**	**24,533**	**22,996**	**6,332**	**5,581**	**5,518**
Cash flow from operating activities	1,474	1,080	2,439	877	969	569
Cash flow from investing activities	–1,310	–1,401	–1,129	–714	–203	–60
Cash flow from financing activities	–63	–329	–583	–634	–435	–349
Cash flow for the period	**101**	**–650**	**727**	**–471**	**331**	**160**

1) For more information about the companies, refer to the list of major subsidiaries on Page 99.
2) For Familia, items affecting comparability in the amount of SEK 41m (52; –232) are included.
3) Other comprehensive income and the Balance sheets for the 2017 and 2016 fiscal years have been adjusted for Familia.

F3. JOINT VENTURES AND ASSOCIATES

AP ACCOUNTING PRINCIPLES

Joint arrangements

Essity classifies its joint arrangements as joint ventures or joint operations, which are presented in Note F4 Joint operations on page 102.

Joint ventures

Joint ventures are defined as companies in which Essity together with other parties has shared control over operations. A joint venture entitles the joint owners to the net assets of the investment. Joint ventures are recognized in accordance with the equity method, meaning that a net item including the goodwill will be recognized for each joint venture in the balance sheet. A share in profits is recognized in the income statement as a component of "Share of profits of associates and joint ventures." Share of profits is calculated on the basis of Essity's share of equity in the respective joint venture. Joint arrangements recognized in accordance with the equity method are initially measured at cost. Measurement of acquired assets and liabilities is carried out in the same way as for subsidiaries. Essity's single largest joint venture is Bunzl & Biach G.m.b.H., Vienna, which supplies the business with raw materials.

Associates

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint arrangement. Normally, this means that the Group owns between 20% and 50% of the votes. Accounting for associates is carried out according to the equity method and they are initially measured at cost. Valuation of acquired assets and liabilities is performed in the same manner as for subsidiaries and the carrying amount for associates includes any goodwill and other Group adjustments.

The Group's share of profit after tax arising in the associate after the acquisition is recognized in the consolidated income statement in the line "Share of profits of associates and joint ventures." Share of profits is calculated on the basis of Essity's share of equity in the respective associate.

F3. JOINT VENTURES AND ASSOCIATES, CONT.

Carrying amounts of joint ventures and associates

SEKm	2018	2017	2016
Joint ventures			
Value, January 1	**144**	**130**	**114**
Net increase in joint ventures[1]	19	9	10
Reclassification between joint ventures and associates	–	–	–
Translation differences	8	5	6
Value, December 31	**171**	**144**	**130**
Associates			
Value, January 1	**918**	**966**	**927**
Company acquisitions	–	3	–
Company divestments	–3	–	–40
Net increase in associates[1]	–21	–28	11
Impairment of associates	–278	–	–
Reclassification between associates and subsidiaries	–6	–8	–
Translation differences	–4	–15	68
Value, December 31	**606**	**918**	**966**
BS TF3:1 **Value, December 31, joint ventures and associates**	**777**	**1,062**	**1,096**

1) Net increase for the period includes the Group's share of the profit after tax of joint ventures and associates, as well as items recognized directly in equity (both after deductions for any non-controlling interests), in addition to an adjustment for dividends received during the period, which amounted to SEK 7m (5; 2) for joint ventures and SEK 79m (171; 147) for associates.

Joint ventures and associates

Asaleo Care Ltd

Asaleo Care Ltd manufactures and markets Consumer Tissue, Professional Hygiene and Personal Care products. Essity has licensed its Tork and TENA brands to Asaleo Care for sale in Australia, New Zealand and Fiji.

In 2015, 2016 and 2017, the company implemented a program to repurchase shares from the market, in which Essity did not participate. This has caused Essity's participation in Asaleo Care to increase to 36.2%. In 2018, the company recognized an impairment loss of AUD 148.5m relating to assets in the Tissue business in Australia and the Personal Care business in New Zealand. Essity has recognized this as an item affecting comparability, see Note B3 on page 77.

Bunzl & Biach

Bunzl & Biach is a joint venture that operates in the recovered paper market and supplies raw materials to Essity's business.

TF3:1 **Material joint ventures and associates, 100% of operations**

	Joint ventures			Associates					
	Bunzl & Biach			Asaleo Care Ltd			Total		
SEKm	2018	2017	2016	2018	2017	2016	2018	2017	2016
Condensed income statement									
Net sales	1,471	1,123	955	3,623	3,829	3,851	5,094	4,952	4,806
Depreciation/amortization	–13	–11	–11	–169	–188	–185	–182	–199	–196
Operating profit/loss	47	28	22	–803	604	597	–756	632	619
Interest income	–	–	–	3	–	2	3	–	2
Interest expenses	–	–	–	–98	–76	–67	–98	–76	–67
Other financial items	1	1	1	–3	–	–2	–2	1	–1
Tax expense	–14	–7	–	219	–154	–155	205	–161	–155
Profit/loss for the period	34	22	23	–682	374	375	–648	396	398
Other comprehensive income for the period	–	–	–	62	–61	31	62	–61	31
Comprehensive income for the period	**34**	**22**	**23**	**–620**	**313**	**406**	**–586**	**335**	**429**
Condensed balance sheet									
Non-current assets	147	120	118	2,482	3,402	3,600	2,629	3,522	3,718
Cash and cash equivalents	12	19	15	426	194	199	438	213	214
Other current assets	238	174	120	1,140	1,250	1,269	1,378	1,424	1,389
Total assets	**397**	**313**	**253**	**4,048**	**4,846**	**5,068**	**4,445**	**5,159**	**5,321**
Non-current financial liabilities	118	92	60	2,061	1,975	2,121	2,179	2,067	2,181
Other non-current liabilities	67	47	46	72	257	252	139	304	298
Current financial liabilities	–	–	–	1	8	28	1	8	28
Other current liabilities	34	30	25	850	703	652	884	733	677
Total liabilities	**219**	**169**	**131**	**2,984**	**2,943**	**3,053**	**3,203**	**3,112**	**3,184**
Net assets	**178**	**144**	**122**	**1,064**	**1,903**	**2,015**	**1,242**	**2,047**	**2,137**
Group share of net assets	87	71	60	385	688	725	472	759	785
Fair value adjustment	71	62	58	178	182	178	249	244	236
Carrying amount of the companies	**158**	**133**	**118**	**563**	**870**	**903**	**721**	**1,003**	**1,021**
Carrying amount of other joint ventures	13	11	12	–	–	–	13	11	12
Carrying amount of other associates	–	–	–	43	48	63	43	48	63
BS TF3:2 **Carrying amount of joint ventures and associates**	**171**	**144**	**130**	**606**	**918**	**966**	**777**	**1,062**	**1,096**
Market value, December 31				**3,144**	**5,232**	**5,296**			

F3. JOINT VENTURES AND ASSOCIATES, CONT.

TF3:2 Carrying amounts of joint ventures and associates

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2018, %	Share of equity at December 31, 2017, %	Share of equity at December 31, 2016, %	Carrying amount December 31, 2018, SEKm	Carrying amount December 31, 2017, SEKm	Carrying amount December 31, 2016, SEKm
Joint ventures								
Bunzl & Biach GmbH	FN79555v	Vienna, Austria	49	49	49	158	133	118
Other						13	11	12
Associates								
Asaleo Care Ltd	61 154 461 300	Melbourne, Australia	36	36	36	563	870	903
Other						43	48	63
BS TF3:1 Carrying amount, December 31						**777**	**1,062**	**1,096**

F4. JOINT OPERATIONS

AP ACCOUNTING PRINCIPLES

Joint operations are defined as companies in which Essity, together with other parties through an agreement, has shared control over operations. In joint operations, parties to the agreement have rights to the assets and obligations for the liabilities associated with the investment, meaning that the operator must account for its share of the assets, liabilities, revenues and costs according to the proportional method.

Measurement of acquired assets and liabilities according to the proportional method is carried out in the same way as for subsidiaries. Essity recognizes its proportional share of the company's assets, liabilities, income and expenses in its financial statements. A small number of companies within Essity are deemed to be joint operations, namely Uni-Charm Mölnlycke, ProNARO and Nokianvirran Energia, in which the parties to the agreement acquire all products and services from the companies and the companies are operated with near-zero profit.

Joint operations

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2018	Share of equity at December 31, 2017	Share of equity at December 31, 2016
Uni-Charm Mölnlycke B.V.	02-330 631	Hoogezand, Netherlands	40	40	40
ProNARO GmbH	HRB 8744	Stockstadt, Germany	50	50	50
Nokianvirran Energia Oy (NVE)	213 1790-4	Kotipakka, Finland	27	27	27

Uni-Charm Mölnlycke

Uni-Charm is classified as a joint operation since the parties to the agreement purchase all products produced by the company. The products are priced in a manner that allows the operations to receive full cost recovery for their production and financing costs. This means that the company in the joint operation is operated with near-zero profit and thus is not exposed to commercial risk. This joint operation has operations in Hoogezand in the Netherlands, Veniov in Russia and Delaware in the US.

ProNARO

A number of paper mills merged and formed the company ProNARO, whose main task is to negotiate favorable prices, optimize inventory levels, improve timber quality and reduce lead times and costs when purchasing timber. ProNARO's purchasing is based on forecast volumes from the paper mills. The company's production and administration costs are charged to the paper mills through the price set for the timber. Any budget or price deviations are charged to the paper mills for these additional costs, which means that ProNARO is not exposed to commercial risk.

Nokianvirran Energia

Essity has entered into an agreement with two other stakeholders to form a joint so-called mankala company in the Finnish energy market, where the joint parties produce heat and steam from biofuel. Each party in the joint operation is obligated to bear a portion of the fixed costs in proportion to its holding in the company and to pay for the raw materials used in the production of heat and steam in proportion to its consumption. Accordingly, the company is not profit-driven since the parties themselves bear their respective costs. The company is expected to generate near-zero profit and thus is not exposed to commercial risk.

F5. SHARES AND PARTICIPATIONS

Shares and participations

SEKm	2018	2017	2016
Value, January 1	**32**	**32**	**33**
Increase through acquisitions	4	3	
Divestments	–8	–3	–1
Translation differences	1	–	–
BS Value, December 31	**29**	**32**	**32**

Shares and participations pertain to holdings in other companies that are not classified as subsidiaries, joint arrangements or associates. Since these holdings are of an operating nature, the holdings are not classified as available-for-sale financial assets. Carrying amounts concur with fair value.

F6. ACQUISITIONS AND DIVESTMENTS

AP ACCOUNTING PRINCIPLES

Acquisition of subsidiaries

Essity applies IFRS 3 Business Combinations for acquisitions. In business combinations, acquired assets and assumed liabilities are identified and classified at fair value on the date of acquisition (also known as purchase price allocation). The purchase price allocation also includes an assessment of whether there are any assets that are intangible in nature, such as trademarks, patents, customer relations or similar assets that were not recognized in the acquired unit. If the cost is higher than the net value of the acquired assets and assumed liabilities, the difference is recognized as goodwill. Any surplus value on property, plant and equipment is depreciated over the estimated useful life of the asset. Goodwill and strong trademarks with indefinite useful lives are not amortized; instead, they are subjected to annual impairment testing. Some trademarks and customer relations are amortized over their estimated useful lives.

If the transferred consideration is contingent on future events, it is measured at fair value and any changes in value are recognized in profit or loss.

Transaction costs in conjunction with acquisitions are not included in cost, but rather expensed directly.

Companies acquired during the period are included in the consolidated financial statements as of the acquisition date. Divested companies are included in the consolidated financial statements until the divestment date.

Non-controlling interests

Acquisitions of non-controlling interests are measured on an acquisition-by-acquisition basis, either as a proportional share of the fair value of identifiable net assets excluding goodwill (partial goodwill) or at fair value, which means that goodwill is also recognized on non-controlling interests (full goodwill).

In step acquisitions in which a controlling influence is achieved, any net assets acquired earlier in the acquired units are remeasured at fair value and the result of the remeasurement is recognized in profit or loss. If the controlling influence is lost upon the divestment of an operation, the result is recognized in profit or loss and the portion of the divested operation that remains in the Group is measured at fair value on the divestment date, with the remeasurement effect recognized in profit or loss.

Acquisitions after controlling influence is achieved are recognized as an equity transaction, meaning a transfer between equity attributable to owners of the Parent and non-controlling interests. The same applies for divestments that take place without the loss of a controlling influence.

Acquisitions in 2018

During the first quarter of 2018, the earlier purchase price allocation from 2017 for BSN medical was confirmed (refer to the table on the next page) in which a final valuation of intangible assets in the form of customer relations, brands, technology and goodwill was carried out. In the first quarter of 2018, BSN medical had an impact of SEK 1,971m on consolidated net sales, SEK 407m on adjusted EBITDA and SEK 344m on adjusted EBITA.

In 2018, Familia, in which Essity has a 50% stake, completed three acquisitions. On February 16, the outstanding 50% of the company Productos Sancela del Peru, with operations in Peru and Bolivia, was acquired. The consideration transferred amounted to SEK 310m. Following the acquisition, Essity consolidated the acquisition of the company as a subsidiary with a minority interest. Prior to the acquisition, the company was consolidated as an associate according to the equity method. Remeasurement was carried out of the previously recognized equity portion at fair value in the amount of SEK 225m and this is recognized as an item affecting comparability in profit or loss. The acquisition did not have any material impact on Essity's net sales since the acquired company's operations are based on the onward sale of products from Familia, which prior to the acquisition recognized sales to Peru and Bolivia as external sales. The impact on Essity's earnings of the acquisition was not material. In February, a building was acquired that was supplemental to the share acquired at the end of 2017 in the company Continental de Negocias S.A, with operations in the Dominican Republic. See Acquisitions in 2017 below for further information. The consideration transferred amounted to SEK 85m. On April 3, the company Industrial Papelera Ecuatoriana S.A (INPAECSA) was acquired with operations in Ecuador. The consideration transferred was SEK 68m. The acquisition did not have any material impact on Essity's net sales or earnings in 2018.

Acquisitions in 2017

On December 19, 2016, it was announced that an agreement to acquire BSN medical, a leading medical technology company, had been concluded. BSN medical develops, manufactures, markets and sells products within the areas of wound care, compression therapy and orthopedics. The purchase price for the shares amounts to EUR 1,394m, and takeover of net debt to EUR 1,321m. The acquisition is fully debt-funded. The transaction, which was subject to customary regulatory approvals, was closed on April 3, 2017. Goodwill is justified by the synergies that arise as a result of BSN medical's leading market positions in attractive medical technology product categories, which create a shared future growth platform in combination with Essity's incontinence business, including the globally leading brand TENA. Furthermore, synergies are generated by being able to utilize a common customer base and sales channels for both businesses, enabling more rapid growth through cross selling. In 2017, restructuring costs amounted to SEK 96m and integration costs to SEK 48m. Costs for the acquisition amounted to SEK 229m, of which SEK 86m was recognized in 2017 and SEK 143m in 2016.

On December 27, Familia acquired the remaining 50% of its joint venture Continental de Negocias S.A in the Dominican Republic. The consideration transferred amounted to SEK 135m. Prior to the acquisition, the acquired company was recognized as an associate according to the equity method. Remeasurement was carried out of the previous equity portion at fair value in the amount of SEK 72m and this is recognized as an item affecting comparability in profit or loss.

Other minor acquisitions amounted to SEK 3m. During the period, liabilities relating to acquisitions in previous years were settled in the amount of SEK 170m, of which SEK 108m related to non-interest-bearing operating liabilities and SEK 62m to a financial debt; the payments mainly concerned two earlier acquisitions in the US within BSN medical.

Effect on sales and earnings in 2017 of acquisitions for the period

Since the date of acquisition, BSN medical has had an impact of SEK 6,301m on consolidated net sales, SEK 1,331m on adjusted EBITDA and SEK 1,150m on adjusted EBITA.

Had the acquisition been consolidated from January 1, 2017, the expected sales would have amounted to SEK 8,363m, adjusted EBITDA to SEK 1,767m and adjusted EBITA to SEK 1,526m. This is based on an annualization of the acquisition's impact since the acquisition date.

The acquisition of the remaining 50% in Continental de Negocias on 27 December did not have any impact on the Group's net sales, adjusted EBITDA or EBITA during the period. Had the acquisition been consolidated from January 1, 2017, the estimated sales would have amounted to SEK 123m, adjusted EBITDA to SEK 19m and adjusted EBITA to SEK 19m.

Acquisitions in 2016

On January 21, 2016, Wausau Paper Corp., one of the largest Professional Hygiene companies in the North American market, was acquired. The consideration transferred amounted to USD 513m (SEK 4,401m). Goodwill is motivated by synergies between Essity and Wausau Paper, including the capacity

F6. ACQUISITIONS AND DIVESTMENTS, CONT.

to offer customers a broad portfolio of products. The acquisition is expected to generate annual synergies of approximately USD 40m, with full effect three years after closing. Synergies are expected in sourcing, production, logistics, reduced imports, increased volumes of premium products and reduced sales, general and administration costs.

A minor acquisition of Sensassure in Canada was carried out. The consideration transferred amounted to SEK 45m, of which SEK 17m relates to earn-out payments that were made in 2017 (SEK 7m) and 2018 (SEK 10m).

Effect on sales and earnings in 2016 of acquisitions for the period

Since the acquisition date, the acquisition of Wausau has had an impact of SEK 2,996m on consolidated net sales, of SEK 272m on adjusted operating profit and of SEK 32m on profit for the period, including items affecting comparability, before tax. If the acquisition had been consolidated from January 1, 2016, the expected net sales would have amounted to SEK 3,164m and profit before tax, including items affecting comparability, to SEK 48m.

Acquired operations

The table below shows the fair value of acquired net assets recognized on the acquisition date, recognized goodwill and the effect on the Group's cash flow statements. All acquisition balance sheets for 2018 have essentially been confirmed and only minor deviations may arise in the first quarter of 2019.

Acquisition balance sheets

SEKm	2018	2017	2016
Intangible assets	77	13,472	213
Property, plant and equipment	381	1,351	2,896
Other non-current assets	1	333	–
Operating assets	313	3,286	672
Cash and cash equivalents	26	498	14
Provisions and other non-current liabilities	–45	–4,278	–71
Net debt excl. cash and cash equivalents	–233	–13,042	–2,124
Operating liabilities	–134	–1,352	–528
Fair value of net assets	**386**	**268**	**1,072**
Goodwill	311	13,290	3,375
Consolidated value of share in associates	–8	–8	–
Revaluation of previously owned shares in associates	–225	–72	–
Non-controlling interests	–	–78	–
Consideration transferred	**464**	**13,400**	**4,447**
Consideration transferred	–464	–13,400	–4,447
Earn-out payment	–	–	19
Settled debt pertaining to acquisitions in earlier years	–23	–108	–2
Cash and cash equivalents in acquired companies	26	498	14
Settled financial debt pertaining to acquisitions in earlier years	–	–62	–
CF Effect on Group's cash and cash equivalents, acquisition of operations	**–461**	**–13,072**	**–4,416**
of which recognized as acquisitions of holdings in Investing activities	–461	–13,070	–4,416
of which recognized as acquisitions of non-controlling interests in Financing activities	–	–2	–
Purchase consideration settled/entered as liability	–	7	–
Acquired net debt excl. cash and cash equivalents	–233	–13,042	–2,124
Settled financial debt pertaining to acquisitions in earlier years	–	62	–
OCF Acquisition of operations during the period, including net debt assumed	**–694**	**–26,045**	**–6,540**

Specification of confirmed acquisition balance sheet for BSN Medical 2018

SEKm	Preliminary 2017	New assumptions	Final
Intangible assets	13,472	–	13,472
Property, plant and equipment	1,350	18	1,368
Other non-current assets	329	–	329
Operating assets	3,161	1	3,162
Cash and cash equivalents	471	–16	455
Provisions and other non-current liabilities	–4,278	–9	–4,287
Net debt excl. cash and cash equivalents	–13,038	–10	–13,048
Operating liabilities	–1,272	5	–1,267
Fair value of net assets	**195**	**–11**	**184**
Goodwill	13,145	11	13,156
Non-controlling interests	–80	–	–80
Consideration transferred	**13,260**	**–**	**13,260**
Consideration transferred	–13,260	–	–13,260
Cash and cash equivalents in acquired companies	471	–16	455
CF Effect on Group's cash and cash equivalents, acquisition of operations	**–12,789**	**–16**	**–12,805**
of which recognized as acquisitions of holdings in Investing activities	–12,789	–16	–12,805
Acquired net debt excl. cash and cash equivalents	–13,038	–10	–13,048
OCF Acquisition of operations during the period, including net debt assumed	**–25,827**	**–26**	**–25,853**

Adjustment of preliminary acquisition balance sheets for 2018

A purchase price allocation is considered preliminary until it is confirmed. A preliminary purchase price allocation is changed as soon as new information regarding assets/liabilities on the acquisition date is obtained, although the acquisition balance sheet must be confirmed not later than one year from the date of the acquisition. The preliminary purchase price allocation for BSN medical from 2017 was confirmed in 2018 following Essity's conclusion of its valuation of BSN medical's balance sheet, in connection with which minor adjustments were made primarily to property, plant and equipment, cash and cash equivalents and financial liabilities against goodwill, in accordance with the above specification. In addition to this adjustment, inventory included in the acquisition of Continental de Negocias S.A in Dominican Republic at the end of 2017 was revalued upward by SEK 10m, which reduced preliminarily recognized goodwill by SEK 7m after adjustment of deferred tax liability.

Divestments

No new divestments were carried out during the year. Gain/losses and cash flow relate to earn-out payments for previously divested companies primarily in the US. All capital gains were recognized in items affecting comparability in profit or loss.

Assets and liabilities included in divestments

SEKm	2018	2017	2016
Property, plant and equipment	–	31	–10
Other non-current assets	–	–	43
Operating assets	–	16	3
Non-current assets held for sale	–	–	124
Cash and cash equivalents	–	1	8
Operating liabilities	–	–4	–15
Gain/loss on sale[1]	68	–2	165
Compensation received	**68**	**42**	**318**
Less:			
Receivable for unpaid purchase consideration	–	–12	–
Cash and cash equivalents in divested companies	–	–1	–8
Add:			
Payment of receivable for purchase consideration	–	–	59
CF Effect on Group's cash and cash equivalents, divestments	**68**	**29**	**369**
Less:			
Divested net debt excl. cash and cash equivalents	–	–	–
OCF Divestment of operations during the period, including net debt transferred	**68**	**29**	**369**

[1] Excluding reversal of realized translation differences in divested companies to profit or loss. Gain/loss on disposal is included in items affecting comparability in profit or loss.

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE

AP ACCOUNTING PRINCIPLES

Non-current assets held for sale and discontinued operations

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, the assets and liabilities are measured at the lower of fair value minus selling costs and the carrying amount. The assets are no longer depreciated after reclassification. Any gain from remeasurement is limited to the amount equivalent to previously made impairment charges. Gains and losses recognized on remeasurement and divestment are recognized in profit and loss for the period.

When an independent business segment or a significant operation within a geographic area is divested, it is classified as a discontinued operation. The divestment date, or the point in time when the operation fulfills the criteria for classification as held for sale, determines when the operation should be classified as a discontinued operation.

Profit/loss after tax from discontinued operations is recognized on a separate line in the income statement. The income statement is adjusted for the comparative period as though the discontinued operation had already been disposed of at the start of the comparative period.

Non-current assets held for sale and discontinued operations

SEKm	2018	2017	2016
Buildings	31	9	59
Land	24	18	31
Machinery and equipment	14	15	66
BS **Total**	**69**	**42**	**156**

In 2018, non-current assets held for sale are attributable to the closure of a production plant in the US in the amount of SEK 30m and the closure of an operation in India in the amount of SEK 39m.

G2. LEASES

AP ACCOUNTING PRINCIPLES

Lease agreements are classified and recognized as either operating or finance leases. In cases where a lease essentially entails that the risks and rewards incidental to ownership have been transferred to Essity, the lease agreement is classified as a finance lease. The leased asset is recognized as a non-current asset with a corresponding interest-bearing liability. The initial value of both these items comprises the lower of the fair value of the assets or the present value of the minimum lease payments. Future lease fees are divided between amortization and interest, so that each reporting period is charged with an interest amount that corresponds to a fixed interest rate on the recognized liability for the respective period. The leased asset is depreciated according to the same principles that apply to other assets of the same nature. If it is uncertain whether the asset will be taken over at the end of the leasing period, the asset is depreciated over the lease term if this is shorter than the useful life that applies to other assets of the same nature. Lease agreements in which the risks and rewards incidental to ownership are essentially carried by the lessor are classified as operating leases, and the lease payments are expensed on a straight-line basis over the lease term.

Leasing expenses

SEKm	2018	2017	2016
Operating leases	–980	–776	–696
Finance leases, depreciation/amortization	–4	–2	–2
Finance leases, interest expense	0	0	0
Total	**–984**	**–778**	**–698**

Operating leases, future minimum lease payments

SEKm	2018	2017	2016
Within 1 year	900	572	515
Between 1 and 5 years	1,770	975	1,209
Later than 5 years	1,297	980	1,392
Total	**3,967**	**2,527**	**3,116**

Operating lease objects comprise a large number of items, including warehouses, offices, other buildings, machinery and equipment, IT equipment, office fixtures and various transport vehicles. The assessment for a number of the objects is that, in actual fact, it is possible to terminate contracts early.

Finance leases, future minimum lease payments

SEKm	2018	2017	2016
Within 1 year	1	1	1
Between 1 and 5 years	0	1	1
Later than 5 years	–	–	–
Total	**1**	**2**	**2**
Of which, interest	0	0	0
Present value of future minimum lease payments	**1**	**2**	**2**

Other disclosures

Total payments for finance leases during the period amounted to SEK –1m (–2; –31), of which amortization of debt accounted for SEK –1m (–2; –31). The carrying amount of finance lease assets at year-end amounted to SEK 1m (5; 5).

G3. CONTINGENT LIABILITIES AND PLEDGED ASSETS

AP ACCOUNTING PRINCIPLES

A contingent liability is recognized when there is a potential or actual obligation arising from events that have occurred that is not recognized as a liability or provision, either because it is improbable that an outflow of resources will be required to settle the obligation or because the amount cannot be calculated in a reliable manner.

Contingent liabilities

SEKm	2018	2017	2016
Guarantees for			
associates	3	5	8
customers and others	44	43	39
Other contingent liabilities[1]	333	294	214
Total	**380**	**342**	**261**

1) Other contingent liabilities above pertain to recycling fees/taxes for packaging in France, where the claim is subject to a judicial review.

With reference to infringements of competition rules, claims for damages have been brought against the company. The company contests its responsibility and does not expect the claim to have a material impact.

Pledged assets

			Total		
SEKm	Pledged assets related to financial liabilities	Other	2018	2017	2016
Real estate mortgages	27	–	27	65	7
Chattel mortgages	34	–	34	31	55
Other	61	216	277	250	130
Total	**122**	**216**	**338**	**346**	**192**

Liabilities for which some of these assets were pledged as collateral amounted to SEK 0m (3; 0).

G4. TRANSACTIONS WITH RELATED PARTIES

Up until the split of SCA into two listed companies on June 15, 2017, Essity had a number of transactions with SCA units, both the former Forest Products business areas and the Parent Company Svenska Cellulosa Aktiebolaget SCA. These transactions and dealings are outlined in the table below. In relation to remuneration of senior executives, refer to Note C3 Remuneration of senior executives on page 80 and for disclosures regarding transactions with associates, joint ventures and joint operations to Notes F3 Joint ventures and associates on page 100 and to F4 Joint operations on page 102.

Purchases from Forest Products relate primarily to pulp used in Essity's manufacturing process. Pricing between units has adhered to the transfer pricing policy that applied at the SCA Group. Other income relates to management fees that are invoiced to Forest Products for such items as management functions and which have been allocated to Essity in connection with the preparation of the combined financial statements. The financial income is attributable to the internal bank's lending to Forest Products.

The most significant dealing during the presented fiscal years relates to the lending that Essity has conducted via the internal bank to Forest Products, which is classified as current financial receivables, Group companies. Transactions in the form of lending and reallocation of net debt have been classified as transactions with shareholders in equity, refer to Note E8 Equity on page 96. The take over by Essity Aktiebolag (publ) on December 30, 2016 of the majority of the external financing that existed within SCA in connection with the final allocation of assets and liabilities between Essity and SCA is the reason for the major change in transactions with shareholders in equity in 2016.

The remaining financial dealings between Essity and SCA were settled in conjunction with the split of the Group into two listed companies on June 15, 2017.

Transactions and dealings with Group companies

SEKm	2018	2017	2016
Sales	–	–	–
Purchases	–	214	511
Other income	–	–	56
Financial income	–	70	108
Financial expenses	–	-9	-2
Non-current financial receivables, Group companies	–	–	3
Current receivables, Group companies	–	–	57
Of which, trade receivables	–	–	18
Of which, currency derivatives	–	–	33
Of which, energy derivatives	–	–	6
Current financial receivables, Group companies	–	–	1,433
Non-current liabilities, Group companies	–	–	48
Of which, currency derivatives	–	–	12
Of which, energy derivatives	–	–	36
Current liabilities, Group companies	–	–	259
Of which, trade payables	–	–	100
Of which, currency derivatives	–	–	64
Of which, energy derivatives	–	–	58
Of which, other current liabilities	–	–	37
Current financial liabilities, Group companies	–	–	485

G5. CHANGES DUE TO NEW ACCOUNTING RULES

The new standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers came into effect on January 1, 2018. This Note presents the effects of the transition to these standards.

IFRS 9

Essity applies IFRS 9 prospectively from January 1, 2018. Comparative information has not been restated and is instead recognized according to IAS 39 for 2017 and 2016.

The new standard contains new principles regarding the recognition and measurement of financial assets. The decisive factors are the company's objective and the contractual cash flows of the financial assets. The principles for financial liabilities are largely unchanged.

A review of the Group's financial assets and liabilities according to the new IFRS 9 criteria did not result in any significant changes to Essity's reporting. A non-current financial asset of SEK 87m that was previously classified as available-for-sale financial assets has been classified in the measurement category of fair value through other comprehensive income. No other changes to the measurement of assets and liabilities have been made.

The new impairment model called expected credit loss (ECL) model has the largest impact on trade receivables for Essity. Essity has decided to apply the simplified model whereby loss allowances are made for the full lifetime of the assets. In the first quarter of 2018, Essity recognized a non-recurring effect of SEK 7m after tax in equity due to the changed calculation model for expected credit losses on trade receivables.

On the introduction of IFRS 9, there is the option of continuing to apply IAS 39 to the area of hedge accounting. Essity has decided not to make use of this option and instead also applies IFRS 9 to hedge accounting. All hedging documentation has been updated in accordance with the new rules. The transition to the new hedging rules did not impact amounts recognized in the balance sheet or income statement.

Effects in the balance sheet due to the transition on January 1, 2018

	December 31, 2017 in acc. with IAS 39	Transition effect	January 1, 2018 in acc. with IFRS 9
Assets			
Trade receivables, gross	17,864		17,864
Provision to reserves for doubtful receivables	–257	–9	–266
Trade receivables	17,607	–9	17,598
Total assets	**17,607**	**–9**	**17,598**
Equity			
Reserves	3,154	0	3,154
Retained earnings	36,785	–7	36,778
Total equity	**39,939**	**–7**	**39,932**
Liabilities			
Deferred tax liabilities	7,090	–2	7,088
Total liabilities	**7,090**	**–2**	**7,088**

The table below shows the changes in measurement due to the change in measurement class.

Changed classification upon the transition to IFRS 9

		Measurement category IFRS 9	
Measurement category IAS 39		**Amortized cost**	**Fair value through comprehensive income**
Financial receivables and liabilities			
Trade receivables	17,607	17,598	
Available-for-sale financial assets			
Equity instruments	87		87

The table below shows changes in equity due to reclassification upon the transition to IFRS 9 and the introduction of the expected credit loss model.

Effects in equity	Provision for available-for-sale assets	Provision for fair value through comprehensive income	Retained earnings
Closing balance 2017 in acc. with IAS 39	**6**	**0**	**36,785**
Reclassification from Available-for-sale financial assets to Fair value through comprehensive income	–6	6	
Increased provisions for trade receivables			–7
Opening balance 2018 in acc. with IFRS 9	**0**	**6**	**36,778**

IFRS 15

Essity applies IFRS 15 prospectively from January 1, 2018. Comparative information for 2017 and 2016 has not been restated and instead 2017 and 2016 are recognized according to the previous rules, mainly IAS 18, which IFRS 15 replaced (refer to the New and amended accounting standards section under A1 General accounting principles and new accounting rules on page 63). A review of the Group's reporting of revenue from contracts with customers under new IFRS 15 criteria did not result in any changes to Essity's reporting in either the income statement or balance sheet. IFRS 15 contains more disclosure requirements than IAS 18, which are presented in a new Note B1 Net sales – Revenue from contracts with customers on page 70, where Essity's accounting principles for revenue recognition are also outlined. Application of IAS 18 in 2018 would not have resulted in any change in outcomes in either the income statement or balance sheet.

Financial statements, Parent Company

Income statement IS

SEKm	Note	2018	2017
Administrative expenses		–738	–933
Other operating income		192	367
Operating loss	PC1	**–546**	**–566**
Financial items	PC9		
Result from participations in subsidiaries		18,347	2,737
Interest income and similar profit items		329	491
Interest expenses and similar loss items		–1,028	–981
Total financial items		**17,648**	**2,247**
Profit after financial items		**17,102**	**1,681**
Appropriations	PC3	0	–1
Income taxes	PC3	–940	816
Profit for the period		**16,162**	**2,496**

Statement of comprehensive income

SEKm	2018	2017
Profit for the period	**16,162**	**2,496**
Other comprehensive income	–	–
Total comprehensive income	**16,162**	**2,496**

Cash flow statement CF

SEKm	2018	2017
Operating activities		
Profit after financial items	17,102	1,681
Adjustment for non-cash items T:1	1,893	274
Paid tax	0	–4
Cash flow from operating activities before changes in working capital	**18,995**	**1,951**
Change in operating receivables	45,190	–47,654
Change in operating liabilities [1]	–47,967	47,818
Cash flow from operating activities	**16,218**	**2,115**
Investing activities		
Acquisition of subsidiaries	–7,007	–14
Divestment of subsidiaries, gain from merger	–	5
Acquisition of fixed assets	–1	–
Cash flow from investing activities	**–7,008**	**–9**
Financing activities		
Loans raised	2,000	22,006
Amortization of debt	–7,172	–24,710
Capital contribution received	–	598
Dividend paid	–4,038	–
Cash flow from financing activities	**–9,210**	**–2,106**
Cash flow for the period	**0**	**0**
Cash and cash equivalents, January 1	0	0
Cash and cash equivalents, December 31 [2]	0	0

T:1 Adjustment for non-cash items	2018	2017
Depreciation/amortization of fixed assets	2	2
Change in accrued items	1,870	255
Impairment of shares in subsidiaries	53	5
Change in provisions	–32	12
Total	**1,893**	**274**

[1] Dealings of the Parent Company with the Swedish subsidiaries relating to tax are recognized as Change in operating receivables or Change in operating liabilities, respectively.
[2] The company's current account is a sub-account and is recognized in the balance sheet as liabilities to Group companies.

Supplementary disclosures

Interest and dividends paid and received	2018	2017
Dividends received	16,255	4,245
Group contribution received	105	334
Group contribution paid	–678	–225
Interest paid	–1,004	–733
Interest received	250	164
Total	**14,928**	**3,785**

Change in liabilities attributable to financing activities

SEKm	Value, January 1	Cash flow	Translation difference	Value, December 31
Non-current interest-bearing liabilities	41,698	–3,991	1,519	39,226
Current interest-bearing liabilities	4,446	2,000	–16	6,430
Current liabilities to subsidiaries	43,964	–3,148	–	40,816
Current receivables from subsidiaries	469	–33	0	–502
Total	**89,639**	**–5,172**	**1,503**	**85,970**

Balance sheet BS

SEKm	Note	2018	2017
Assets			
Fixed assets			
Capitalized development costs		0	0
Intangible fixed assets	PC4	**0**	**0**
Machinery and equipment		5	5
Tangible fixed assets	PC5	**5**	**5**
Participations	PC6	174,622	167,614
Receivables from subsidiaries	PC7	507	435
Other non-current receivables		213	51
Deferred tax assets	PC3	105	1,046
Financial fixed assets		**175,447**	**169,146**
Total fixed assets		**175,452**	**169,151**
Current assets			
Receivables from subsidiaries	PC7	3,016	48,770
Current tax assets	PC3	4	4
Other current receivables	PC8	21	160
Total current assets		**3,041**	**48,934**
Total assets		**178,493**	**218,085**
Equity, provisions and liabilities			
Equity	PC11		
Share capital		2,350	2,350
Statutory reserve		0	0
Total restricted equity		**2,350**	**2,350**
Retained earnings		71,697	73,239
Profit for the period		16,162	2,496
Total non-restricted equity		**87,859**	**75,735**
Total equity		**90,209**	**78,085**
Untaxed reserves	PC3	**1**	**1**
Provisions			
Provisions for pensions	PC2	873	878
Other provisions		6	3
Total provisions		**879**	**881**
Non-current liabilities			
Liabilities to subsidiaries	PC7	–	12
Non-current interest-bearing liabilities	PC9	39,226	41,697
Total non-current liabilities		**39,226**	**41,709**
Current liabilities			
Liabilities to subsidiaries	PC7	41,249	92,461
Current interest-bearing liabilities	PC9	6,430	4,446
Accounts payables		20	30
Other current liabilities	PC10	479	472
Total current liabilities		**48,178**	**97,409**
Total equity, provisions and liabilities		**178,493**	**218,085**

Change in equity (Refer also to Note PC11)

SEKm	Share capital	Statutory reserve	Retained earnings and profit for the period	Total equity
Equity at December 31, 2016	**0**	**0**	**74,986**	**74,986**
Profit for the period			2,496	2,496
Bonus issue	2,350	0	–2,350	0
Gain from merger			5	5
Capital contribution received			598	598
Equity at December 31, 2017	**2,350**	**0**	**75,735**	**78,085**
Profit for the period			16,162	16,162
Dividend, SEK 5.75 per share		–	–4,038	–4,038
Equity at December 31, 2018	**2,350**	**0**	**87,859**	**90,209**

PC. PARENT COMPANY NOTES

PC1. OPERATING PROFIT/LOSS

Operating profit/loss by type of cost

SEKm	Note	2018	2017
Other operating income		192	367
Other external costs		–396	–597
Personnel and Board costs		–340	–334
Amortization of capitalized development costs	PC4	0	0
Depreciation of tangible fixed assets	PC5	–2	–2
IS **Total**		**–546**	**–566**

The item "Other external costs" includes primarily consultancy fees, travel expenses, lease expenses and management costs.

AUDITING EXPENSES

Remuneration to auditors can be specified as follows:

SEKm	2018	2017
EY		
Audit assignments	–13	–12
Auditing activities other than the audit assignment	0	–1
Tax consultancy services	0	–
Other assignments	–2	–
Total	**–15**	**–13**

Leasing

AP ACCOUNTING PRINCIPLES

The company recognizes all leases as operating leases.

Future payment commitments for non-cancellable operating leases are as follows:

SEKm	2018	2017
Within 1 year	24	24
Between 2 and 5 years	7	29
Later than 5 years	–	–
Total	**31**	**53**

Cost for the period for leasing of assets amounted to SEK –25m (–25). Leased assets comprise means of transportation and office premises.

PC2. PERSONNEL AND BOARD COSTS

Salaries and remuneration

SEKm	2018	2017
Board of Directors[1], President, Executive Vice President and senior executives (4 (5))	–67	–67
of which variable remuneration	–22	–28
Other employees	–118	–134
Total	**–185**	**–201**

1) Board fees decided by the Annual General Meeting amounted to SEK –9m (–9). For further information, see Notes C1–C4 on page 80.

Social security costs

SEKm	2018	2017
Total social security costs	–147	–124
of which pension costs[2]	–89	–61

2) Of the Parent Company's pension costs, SEK –14m (–16) pertains to the Board, President, Executive Vice President and senior executives. Former Presidents and Executive Vice Presidents and their survivors are also included. The company's outstanding pension obligations to these individuals amount to SEK 46m (51).

Pension costs

SEKm	2018	2017
Self-administered pension plans		
Costs excluding interest expense	–38	–49
Interest expense (recognized in personnel costs)	–5	–6
Sub-total	**–43**	**–55**
Retirement through insurance		
Insurance premiums	–31	–18
Other	4	32
Sub-total	**–70**	**–41**
Policyholder tax	0	0
Special payroll tax on pension costs	–16	–17
Cost of credit insurance, etc.	–3	–3
Pension costs for the period	**–89**	**–61**

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK –2m (–2). Premiums for 2019 are expected to amount to SEK 2m (see also Provisions for pensions in this note). Personnel costs also include other personnel costs in the amount of SEK –8m (–8).

Average number of employees

	2018	2017
Sweden	110	116
of whom women, %	49	49

Breakdown of employees by age groups, %

2018	21–30 years	31–40 years	41–50 years	51–60 years	61- years
	1	22	40	28	9

Women comprised 50% (46) of Board members and 25% (36) of senior executives.

PC2. PERSONNEL AND BOARD COSTS, CONT.

Provisions for pensions

AP ACCOUNTING PRINCIPLES

The Parent Company applies the regulations in the Pension Obligations Vesting Act (Tryggandelagen). Recognition complies with the simplification rule for defined benefit pension plans in accordance with the voluntary exception in RFR 2 regarding IAS 19. The main difference compared with IAS 19 is that Swedish GAAP disregards future increases in salaries and pensions when calculating the present value of the pension obligation. This present value includes, however, a special reserve for future payments of pension supplements indexed for inflation. Both defined contribution and defined benefit plans exist in the Parent Company.

PRI Pensions

Pension liabilities pertaining to PRI pensions have been secured through a common Swedish Essity pension fund. The market value of the Parent Company's portion of the foundation's assets at December 31, 2018 amounted to SEK 191m (151). In 2018, compensation was received in the amount of SEK 6m (–). The capital value of the pension obligations at December 31, 2018 amounted to SEK 159m (134). Pension payments of SEK –5m (–6) were made in 2018. In 2018, the assets exceeded pension obligations by SEK 32m (17).

Other pension obligations

The Group's Note C3 Remuneration of senior executives on page 80 describes the other defined benefit pension plans of the Parent Company. The table below shows the change between the years.

Capital value of pension obligations relating to self-administered pension plans

SEKm	2018	2017
Value, January 1	**878**	**839**
Compensation received for assumed pension obligations	–	21
Costs excluding interest expense	38	49
Interest expense (recognized in personnel costs)	5	6
Payment of pensions	–48	–37
BS **Value, December 31**	**873**	**878**

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 0.6% (0.7). The defined benefit obligations are calculated based on salary levels valid on the respective balance sheet dates. All of the company's pension obligations were transferred from Svenska Cellulosa Aktiebolaget SCA on December 31, 2016. The pension obligations were formerly transferred when the County Administrative Board granted its approval in 2017. Next year's expected payments for the above defined benefit pension plans amount to SEK 52m. Part of the pension obligations are covered by capital redemption policies. The capital redemption policies are reported as other non-current receivables in the balance sheet.

PC3. INCOME TAXES

AP ACCOUNTING PRINCIPLES

Due to the links between accounting and taxation, the deferred tax liability on untaxed reserves is recognized in the company's annual accounts as a component of untaxed reserves.

Tax expense

Tax expense (+), tax income (–)

SEKm	2018	2017
Deferred tax	940	–816
Current tax	–	–
IS **Total**	**940**	**–816**

Explanation of tax expense

The difference between the recognized tax expense and expected tax expense is explained below. The expected tax expense is calculated based on profit before tax multiplied by the current tax rate.

	2018		2017	
Reconciliation	**SEKm**	**%**	**SEKm**	**%**
IS Profit before tax	17,102		1,680	
IS Tax expense/income	940	5.5	–816	–48.5
Expected tax	3,763	22.0	370	22.0
Difference	**–2,823**	**–16.5**	**–1,186**	**–70.5**
The difference is due to:				
Taxes related to prior periods	0	0.0	–16	–0.9
Non-taxable dividends from subsidiaries	–3,576	–20.9	–934	–55.6
Non-taxable Group contributions from subsidiaries[1]	–	–	–529	–31.5
Non-deductible Group contributions to subsidiaries[1]	713	4.2	13	0.8
Other non-taxable/non-deductible items	30	0.2	280	16.7
Changed tax rate	10	0.0	–	–
Total	**–2,823**	**–16.5**	**–1,186**	**–70.5**

[1] Non-taxable and non-deductible Group contributions relate to repayment from/to the respective subsidiary, which amounts to 78% of the Group contribution.

The Parent Company participates in the Group's tax pooling arrangement and up until 2017, paid the majority of the Group's total Swedish taxes. These were recognized in profit or loss as Group contributions paid and received. The net of paid and received Group contributions per subsidiary amounts to 22% and is the respective subsidiary's share of the tax cost for the Group. As of 2018, another Swedish subsidiary is used to pay the majority of the Group's total Swedish taxes.

Current tax liability (+), tax asset (–)

SEKm	2018	2017
Value, January 1	**–4**	**–**
Current tax expense	–	–
Paid tax	0	–4
BS **Value, December 31**	**–4**	**–4**

Deferred tax expense (+), tax income (–)

SEKm	2018	2017
Changes in temporary differences	940	–800
Adjustments for prior periods	0	–16
Total	**940**	**–816**

Deferred tax assets (–)

SEKm	Value, January 1	Deferred tax expense	Value, December 31
Provisions for pensions	–190	11	–179
Tax loss carryforwards	–1,016	1,014	–2
Other	160	–84	76
BS **Total**	**–1,046**	**941**	**–105**

Appropriations and untaxed reserves

Accumulated depreciation in excess of plan totaling SEK 1m (1) is included in the Parent Company's untaxed reserves.

PC4. INTANGIBLE FIXED ASSETS

Capitalized development costs

SEKm	2018	2017
Accumulated costs	0	0
Accumulated amortization	0	0
Residual value according to plan	**0**	**0**
Value, January 1	**0**	**0**
Investments	–	–
Sales and disposals	–	–
Amortization for the period	0	0
BS **Value, December 31**	**0**	**0**

PC5. TANGIBLE FIXED ASSETS

AP ACCOUNTING PRINCIPLES

Essity Aktiebolag's tangible fixed assets are recognized in accordance with the Group's accounting principles.

Tangible fixed assets

	Equipment	
SEKm	**2018**	**2017**
Accumulated costs	8	7
Accumulated depreciation	–3	–2
Residual value according to plan	**5**	**5**
Value, January 1	**5**	**7**
Investments	1	0
Sales and disposals	0	–
Depreciation for the period	–1	–2
BS **Value, December 31**	**5**	**5**

PC6. PARTICIPATIONS

AP ACCOUNTING PRINCIPLES

Essity Aktiebolag recognizes all holdings in Group companies at cost after deduction for any accumulated impairment losses.

Participations in Group companies

	Subsidiaries	
SEKm	**2018**	**2017**
Accumulated costs	175,943	168,883
Accumulated impairment	–1,321	–1,269
Carrying amount	**174,622**	**167,614**
Value, January 1	**167,614**	**167,601**
Investments	30,947	48,882
Divestments	–23,887	–47,600
Impairment for the period	–52	–1,269
BS TPC6:1 **Value, December 31**	**174,622**	**167,614**

During the fiscal year, the company acquired the Group company Lejenbrottet Aktiebolag for SEK 0.2m. Lejenbrottet Aktiebolag also received a capital contribution of SEK 52m. In parallel, impairment was carried out with the corresponding amount. A capital contribution of SEK 30,894m was also made to Essity Group Holding BV. The subsidiary Essity Capital NV was discontinued during the year through voluntary liquidation and its capital was transferred to Essity Aktiebolag.

TPC6:1 Essity Aktiebolag's holdings of shares and participations in subsidiaries, December 31, 2018

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOBOF	556047-8520	Stockholm, Sweden	1,000	100	0
Essity Försäkringsaktiebolag	516401-8540	Stockholm, Sweden	140,000	100	14
SCA Hedging AB	556666-8553	Stockholm, Sweden	1,000	100	0
Lejenbrottet Aktiebolag	556643-7298	Gothenburg, Sweden	1,000	100	0
Foreign subsidiaries:					
Essity Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	174,329
Essity Italy S.p.A	3318780966	Capannori, Italy	125,000	25	279
Total carrying amount of subsidiaries					**174,622**

German subsidiaries that are subject to disclosure exemptions. The following German companies are fully consolidated and subject to disclosure exemptions pursuant to Sec. 264 para. 3 of the German Commercial Code ("HGB").

1. Essity GmbH, domicile in Mannheim, Germany
2. Essity Holding GmbH, domicile in Ismaning, Germany
3. Essity Operations Neuss GmbH, domicile in Neuss, Germany
4. Essity Operations Mannheim GmbH, domicile in Mannheim, Germany
5. Essity Operations Mainz-Kostheim GmbH, domicile in Wiesbaden, Germany
6. Essity Professional Hygiene Germany GmbH, domicile in Mannheim, Germany
7. Essity Germany GmbH, domicile in Mannheim, Germany
8. Essity Operations Witzenhausen GmbH, domicile in Witzenhausen, Germany
9. Essity Hygiene Holding GmbH, domicile in Mannheim, Germany
10. BSN medical GmbH, domicile in Hamburg, Germany

PC7. RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Receivables from and liabilities to subsidiaries

SEKm	2018	2017
Fixed assets		
Derivatives	507	435
BS **Total**	**507**	**435**
Current assets		
Interest-bearing receivables	502	469
Financial derivatives	158	761
Trade receivables	211	210
Other receivables	2,145	47,330
BS **Total**	**3,016**	**48,770**
Non-current liabilities		
Financial derivatives	–	12
BS **Total**	**–**	**12**
Current liabilities		
Interest-bearing liabilities	40,816	43,964
Financial derivatives	229	396
Accounts payables	32	73
Other liabilities	172	48,028
BS **Total**	**41,249**	**92,461**

PC8. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2018	2017
TPC8:1 Prepaid expenses and accrued income	17	19
Other receivables	4	141
BS **Total**	**21**	**160**
TPC8:1 **Prepaid expenses and accrued income**		
Prepaid lease of premises	7	7
Prepaid financial expenses	1	1
Prepaid insurance premiums	–	1
Other items	9	10
Total	**17**	**19**

PC9. FINANCIAL INSTRUMENTS

AP ACCOUNTING PRINCIPLES

The Parent Company's financial instruments are recognized in accordance with the Group's accounting principles. Refer to Notes E1–E4 on pages 89–92. Hedge accounting was not applied by the Parent Company.

Financial items

SEKm	2018	2017
Result from participations in Group companies		
Dividends from subsidiaries 1)	16,255	4,245
Group contributions received from subsidiaries	2,144	439
Group contributions paid to subsidiaries	–	–678
Impairment of shares in subsidiaries	–52	–1,269
Interest income and similar profit items		
Interest income, external	8	0
Interest income, subsidiaries	321	491
Interest expenses and similar loss items		
Interest expenses, external	–532	–442
Interest expenses, subsidiaries	–460	–470
Other financial expenses 2)	–36	–69
IS **Total**	**17,648**	**2,247**

1) Dividends in 2018 include the gain from the liquidation of Essity Capital NV totaling SEK 7,207m.
2) The item other financial expenses includes financial fees and exchange rate differences. Exchange rate differences amounted to SEK 6m (19), net.

Interest-bearing liabilities

Non-current interest-bearing liabilities

	Carrying amount		Fair value	
SEKm	2018	2017	2018	2017
Bond issues	33,767	35,288	34,427	35,670
Other non-current loans with a term > 1 yr < 5 yrs	3,406	4,444	3,425	4,419
Other non-current loans with a term > 5 yrs	2,053	1,965	1,960	1,823
BS **Total**	**39,226**	**41,697**	**39,812**	**41,912**

Current interest-bearing liabilities

	Carrying amount		Fair value	
SEKm	2018	2017	2018	2017
Bond issues	3,000	2,946	3,000	2,946
Loans with maturities of less than one year	3,430	1,500	3,430	1,500
BS **Total**	**6,430**	**4,446**	**6,430**	**4,446**

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate %
Notes SEK 500m	2019	500	500	2.50
Notes SEK 900m	2019	900	900	0.75
Notes SEK 1,000m	2019	1,000	1,000	–0.15
Notes SEK 600m	2019	600	600	–0.32
Notes EUR 300m	2020	3,083	3,103	0.50
Notes EUR 500m	2021	5,123	5,161	0.50
Notes EUR 600m	2022	6,136	6,182	0.63
Notes EUR 500m	2023	5,110	5,517	2.50
Notes EUR 600m	2024	6,139	6,216	1.13
Notes EUR 300m	2025	3,076	3,038	1.13
Notes EUR 500m	2027	5,100	5,165	1.63
Total		**36,767**	**37,427**	

Financial instruments by category

AP ACCOUNTING PRINCIPLES

The categories of financial instruments in 2018 classified according to IFRS 9 that exist in the Parent Company comprise financial assets and liabilities measured at fair value through profit or loss and amortized cost. In 2017, the Parent Company classified its financial instruments in the categories loans and trade receivables and financial liabilities measured at amortized cost, except for derivatives, which were measured at fair value through profit or loss. The transition to IFRS 9 did not entail any changes in valuations. All of the Parent Company's financial assets and liabilities measured at fair value through profit or loss are assessed according to measurement level 2. For a definition, refer to Note E1 on page 89. Financial assets measured at amortized cost are continuously reviewed to assess the need for credit loss provisions. If there is a material need for credit loss provisions, a provision is made in accordance with the expected credit loss model.

PC9. FINANCIAL INSTRUMENTS, CONT.

Financial instruments by category

SEKm	Note	2018	2017
Financial assets measured at fair value through profit or loss			
Derivatives with subsidiaries – Non-current financial assets	PC7	507	435
Endowment insurances – Other non-current receivables		213	51
Derivatives with subsidiaries – Current financial assets	PC7	158	761
Total		**878**	**1,247**
Financial liabilities measured at fair value through profit or loss			
Derivatives for subsidiaries – Non-current financial liabilities	PC7	–	12
Derivatives for subsidiaries – Current financial liabilities	PC7	229	396
Total		**229**	**408**
Loan and trade receivables measured at amortized cost			
Current interest-bearing receivables with subsidiaries	PC7	502	469
Trade receivables with subsidiaries	PC7	211	210
Trade receivables – other current receivables		0	1
Total		**713**	**680**
Financial liabilities measured at amortized cost			
Non-current interest-bearing liabilities		39,226	41,697
Current interest-bearing liabilities to subsidiaries	PC7	40,816	43,964
Current interest-bearing liabilities		6,430	4,446
Accounts payables to subsidiaries	PC7	32	73
Accounts payables		20	29
Other current liabilities to subsidiaries	PC7	3	2
Other current liabilities		297	284
Total		**86,824**	**90,495**

The nominal value of the derivatives before the right of set-off is SEK 136,392m (105,056). The nominal value of the derivatives after the right of set-off is SEK 56,561m (54,958).

PC10. OTHER CURRENT LIABILITIES

Other current liabilities

SEKm	2018	2017
TPC10:1 Accrued expenses and prepaid income	432	440
Other operating liabilities	47	32
BS **Total**	**479**	**472**

TPC10:1 Accrued expenses and prepaid income

SEKm	2018	2017
Accrued interest expenses	297	284
Accrued social security costs	53	55
Accrued vacation pay liability	16	15
Other liabilities to personnel	43	64
Other items	23	22
Total	**432**	**440**

PC11. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented on page 109. The company was formed in 1988. The share capital and number of shares have increased since the formation via new issues and bonus issue as set out below:

YEAR	Event	No. of shares	Increase in share capital	Cash payment, SEKm
1988	Number of shares issued in connection with formation	500	0.1	0.1
1995	New issue 1:1, issue price SEK 100	500	0.1	0.1
2016	New issue 1:4, issue price SEK 100	4,000	0.4	0.4
2017	Bonus issue	702,337,489	2,349.9	0.0
2018	**Number of shares, December 31, 2018**	**702,342,489**	**2,350.4**	**0.5**

The quotient value of the company's shares amounts to SEK 3.35 (3.35).

PC12. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities

SEKm	2018	2017
Guarantees for subsidiaries	16,878	53,489
Other contingent liabilities	78	94
Total	**16,956**	**53,583**

Pledged assets

SEKm	2018	2017
Other	213	184
Total	**213**	**184**

PC13. ADOPTION OF THE ANNUAL ACCOUNTS

The annual accounts are subject to adoption by Essity Aktiebolag's Annual General Meeting and will be presented for approval at the Annual General Meeting on April 4, 2019.

PC14. EVENTS AFTER THE BALANCE SHEET DATE

No significant events occurred after the balance sheet date that impacted the financial statements.

H. NOTES TO NON-FINANCIAL INFORMATION

H1. GENERAL ACCOUNTING PRINCIPLES

Reporting principles
The environmental and social data reported pertains to the 2018 calendar year. The figures included comply with relevant reporting and consolidation principles in the financial statements. The figures cover the Essity Group's wholly owned subsidiaries and subsidiaries in which Essity owns at least 50%. If ownership in the subsidiary is at least 50% or more, the entire company is included in the reporting. Essity uses the global Greenhouse Gas Protocol standard for measuring, and calculating carbon data.

Subsidiaries with significant non-controlling interests (see Note F2), such as the Chinese company Vinda and the Colombian company Familia, social data, such as employee figures, employee turnover and health and safety data is reported in notes H14 and H15. Some other social data is not included, for example Note H13 Code of Conduct data as subsidiaries with significant non-controlling interests have their own Codes of Conduct. Vinda publishes an Environmental, Social and Governance (ESG) report, which is available at www.vinda.com. Familia reports in accordance with the GRI Reporting Standards. For more information, visit www.grupofamilia.com.co.

Newly acquired businesses are included in the reporting as soon as possible, though not later than when they have been part of the Group for one calendar year. The historic environmental and social data of newly acquired companies are included to the greatest possible extent in order to increase comparability. The data from divested companies is excluded in its entirety as of the divestment date. Historic data for discontinued units is retained.

A main site is a production facility that is wholly owned by Essity and that has 100 or more employees.

Data collection
Data provided in the report is compiled through various systems, primarily the Group's financial consolidation system, Resource Management System (RMS) and Essity's system for collection of social data.

Environmental data
The RMS encompasses more than 76 production sites, covering virtually the entire company's environmental impact and resource utilization from production. Data from stand-alone tissue converting sites is included in the main mother reel supplying site.
Each unit reports the following data to the system:
- raw material consumption
- incoming and outgoing shipments
- production volumes
- energy consumption broken down by hydro-electric power, co-generation and power from the grid
- fuel consumption broken down by biofuels, fossil fuels and electric boilers
- air emissions, including data on fossil and biogenic carbon dioxide
- water emissions
- solid waste

The data is reported both internally and externally at the mill level and for the Group as a whole. The values calculated are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). Conversion factors used:
- Emissions of greenhouse gases from incineration are calculated using emission factors for the fuel's thermal value. Source: IPCC Guidelines 2006.
- Emissions of greenhouse gases from purchased electricity are calculated using the country's emission factor published by the International Energy Agency (IEA), 2016.

Social data
Data is provided from different internal systems and tools depending on the nature of the data. HR data resides in Essity' s HR system and other qualitative data is collected in Essity's database for social data.

Comparability
This is Essity's second integrated Annual and Sustainability Report. The previous year's report is from February 21, 2018. Historical information is also obtained from previous publications of SCA's Sustainability Reports. This information is adjusted to make Essity's figures comparable. This applies for example to most of the GRI indicators and data encompassed by Essity's sustainability targets, such as information on CO_2 and health and safety. Figures from previous years are reported in parenthesis.

The results of the Group's CO_2 target and water target are adjusted each year in relation to production levels. Other environmental data is reported in absolute figures.

GRI reporting
Essity reports sustainability information in accordance with the Global Reporting Initiatives (GRI) guidelines for GRI Reporting Standards: Core. The Report has been structured in accordance with GRI principles, meaning that the content is determined by the issues that are most material to Essity and its stakeholders, and that the content provides a complete overview of the operations. Essity's 21 subject areas in the materiality analysis are matched against GRI indicators, and they form the selection of the indicators that Essity presents in this report. Essity reports in accordance with all GRI indicators and on a level identified as material. In addition, Essity reports a number of general indicators according to the GRI Standards: Comprehensive option as this clarifies the information in the report. Any omissions or incomplete data are commented on directly in the GRI index. The entire report has been reviewed by EY. The report is aimed at specialist audiences with an interest in sustainability performance, including analysts, investors and NGOs. Additional information about Essity's work on environmental and social issues is available at www.essity.com.

The UN Guiding principles
Essity uses the reporting framework for the United Nations Guiding Principles on Business and Human Rights (UNGPs) and has reported on the overarching aspects contained in the framework.

H2. CUSTOMERS AND CONSUMERS

Essity conducts systematic customer and consumer follow-up. This includes external reports, independent surveys and global systems for feedback. Complaints have remained at a stable and low level in recent years. For Personal Care products, the complaint frequency is lower than 1 in a million supplied products. In the Tissue operations, the corresponding figure is 2.6 per thousand tons.

Customer surveys
Customer feedback enables Essity to offer better products and services. Every business unit has methods to investigate customer satisfaction.

Essity also offers expertise and support for the development of operations in, for example, nursing homes and professional environments, where the company can help make a difference and create value for its customers and users. Essity places high value on opportunities for direct customer contact.

The retail trade accounts for a significant part of Essity's net sales. The company uses external comparison reports in which the largest retail chains assess their suppliers based on customer service, logistics, sales support, marketing and product development. Consumers who purchase retail products are followed up through general brand and product recognition surveys.

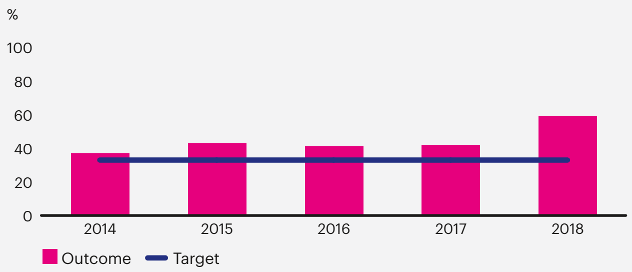
H3. INNOVATION

Essity has a Group target to provide social and/or environmental improvements on innovations launched. The target is for at least one-third of all innovations to achieve these criteria each year. 59% (42, 41) of Essity's innovations yielded social and/or environmental improvements. This refers to the percentage of sales of innovations measured over 36 months. In 2018, 29 innovations were launched.

People and nature innovations

Innovations that improve social and environmental performance also make financial sense. For Essity, these innovations have added value and are based on an in-depth understanding of customers and consumers.

People and nature innovations



Carbon footprint reduction

Product	Carbon footprint reduction 2008–2017, %
TENA Flex	–16
TENA Lady	–31
TENA Men	–21
TENA Pants	–33
TENA Slip	–20
TENA Comfort	–18
TENA Bed	–9
Libero open diaper	–25
Libero pant diaper	–16
Feminine Ultra towels	–14
Tork Exelclean[1]	–14
Tork paper hand towels[2]	–18

[1] 2012–2016
[2] 2011–2017

The life cycle assessments performed by Essity were verified by the Swedish Environmental Research Institute (IVL) in 2017. The table is updated every second year.

H4. HYGIENE SOLUTIONS

Essity's aim is to convey knowledge about hygiene to customers and consumers. In 2018, Essity educated around 2.5 million people in health and hygiene. Most, 66%, were children and teenagers who were educated in good hand hygiene and young girls about menstruation. Other target groups for this training were caregivers, doctors, staff at residential care facilities, parents and the immediate family to pensioners. Areas covered by the training sessions included hand hygiene, puberty and menstruation, incontinence, wound care and parental education.

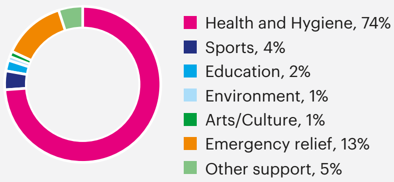
H5. COMMUNITY RELATIONS

Essity strives to be a dedicated partner in the local communities in which it operates.

In 2018, Essity invested approximately SEK 18m in over 300 projects. Most of the projects were related to hygiene and health.

Essity's community relations instruction states that Essity shall be politically and religiously neutral. The company must not make payments or product donations to political parties or candidates, or their institutions, agencies or representatives, or religious institutions/organizations or their representatives. Essity did not support any organizations or projects with political or religious aims in 2018.

Community relations by focus area 2018



H6. FIBER SOURCING

In 2018, Essity updated its global fresh fiber sourcing policy and thereby reinforced its commitment to sustainable forestry operations, forest certification and traceability for fiber content. The new policy is available at www.essity.com.

Essity is a global purchaser of both fresh fiber and recovered fiber and has communicated its clear commitment that all fresh wood based fiber raw material will originate from responsibly managed forests. Essity's target for fresh wood based fiber sourcing is to continuously increase the share of certified fiber in its products and packaging, with a preference for FSC® certification, until all of the fiber is certified. All fiber that is not yet certified must fulfill the FSC Controlled Wood standard to be eligible for purchasing. Goal fulfillment for certified fiber in 2018 was 76%. The remainder fulfilled FSC's Controlled Wood standard.

Most of Essity's wholly owned manufacturing units are now certified in line with FSC and/or PEFC Chain of Custody standards.

Essity's fiber use

Renewable raw materials (fresh fiber and recycled fiber) account for the largest share of the total volume of material in tissue products and are an important material in Personal Care products. Synthetic materials are used in Personal Care products to meet the user's function and quality requirements.

In 2018, Essity sourced 2.9 million tons of fresh fiber and 2.1 million tons of recovered fiber. Fresh fiber mainly comprises pulp, 97.4%, and the remainder comprises packaging, externally sourced mother reels and products manufactured by third parties. Of the 2.1 million tons of recovered fiber sourced, 91% is used in tissue manufacturing. The remainder consists of recovered fiber, which is found in sourced packaging material and sourced mother reels.

Recovered fiber

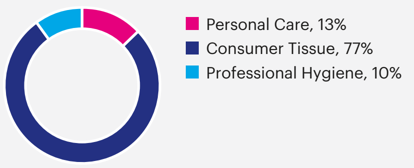
The proportion of recovered fiber in Essity's products varies between regions due to differences in quality, user preferences and fiber supply and demand. The North American operations use 97% recovered fiber, while the proportion of recovered fiber in Latin America is 77% and in Europe 38%.

Results of audit of pulp suppliers

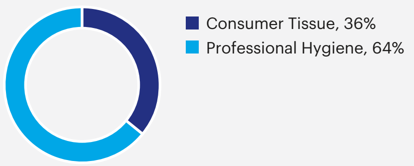
The eleven largest of Essity's pulp suppliers to wholly owned companies represent 80% the volume sourced. Essity audits all of its pulp suppliers to verify compliance with Essity's sourcing policy for fiber. In addition to this, all suppliers must sign Essity's Global Supplier Standard. Pulp suppliers are also assessed through the use of detailed questionnaires to verify that they fulfill the requirements of chain of custody certification and ecolabeling. All pulp suppliers in 2018 showed that they comply with the standards and requirements made on them by Essity.

During 2018, Essity's personnel visited ten supplier facilities to assess compliance with the company's requirements. In addition to these pulp supplier audits, Essity has provided support to several other suppliers where wood fiber may be part of the raw material. The purpose of this was to help them achieve FSC chain of custody certification.

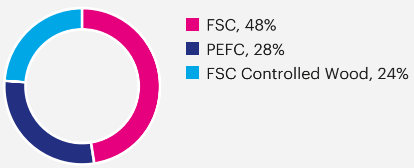
Pulp consumption 2018



Recovered paper consumption 2018



Essity's fresh fiber use 2018



H7. ENERGY AND EMISSIONS TO AIR/ SCIENCE-BASED TARGETS

Essity's Group target is to reduce CO_2 emissions, in relation to the production level, from fossil fuels and from purchased electricity and heating by 20% by 2020, with 2005 as reference year. CO_2 emissions declined at year-end 2018 by 18.8% compared with the reference year of 2005.

Energy utilization

Energy use calculations include purchased energy (heating, electricity and fuel) and use of biomass and electricity generated on site. Energy efficiency, new technology and the greater use of renewable energy are required to achieve Essity's stated targets.

ESAVE

In 2010, Essity adopted a target for ESAVE: to reduce energy consumption per ton of product produced by 14% by 2020. During 2018, energy consumption rose 1.4% (–0.4), the first increase in ten years. The accumulated energy savings in the 2010–2018 period amounted to 8.0%.

The EU Emissions Trading Scheme (EU ETS)

Essity had 24 mills and plants included under the EU ETS in 2018. Essity's operations have a deficit of emission allowances during the third phase of EU ETS (2013–2020). The deficit involves an average of approximately 0.2 million tons of carbon dioxide equivalents per year during the period. The average market price for emission rights in 2018 was about EUR 15.9 per ton and Essity purchased 240,000 emission rights.

Emissions

Essity's climate-affecting emissions are divided into three different scopes depending on origin. Scope 1 and 2 are directly linked till Essity's production facilities and are dependent on production volumes. This also includes direct emissions from fuel consumption and indirect emissions from the use of purchased energy. Scope 3 reports indirect emissions in Essity's value chain.

Scope 1 consists of emissions from burning of fuels at Essity's production facilities. The reported data is based on energy use with associated emission factors.

Scope 2 consists of emissions from purchased energy and is primarily linked to the use of electricity and also purchased thermal energy in the form of steam. The calculation of emission data uses country and region-specific emission factors.

Scope 3 emissions derive from, for example, energy use that is not owned or controlled by Essity. The emission categories included are from the production of purchased raw materials, incoming and outgoing transportation, and the handling of production waste and waste from used products. In 2019, Essity will further develop the working methods for monitoring and reporting Scope 3 based on established methods.

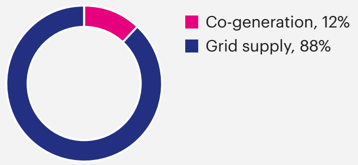
Other air emissions from use of fuel in production facilities include nitrogen oxides and sulphur oxides (NOx and SOx). These are reported in Essity's environmental reporting system.

Science-Based Targets

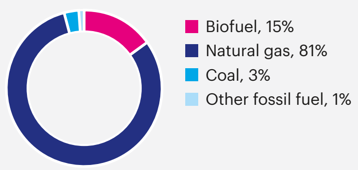
In addition to the aforementioned Group target, Essity's new targets to reduce greenhouse gases emissions have been approved by the Science Based Targets initiative. In terms of energy consumption within the company and purchased electricity (Scope 1 and 2), Essity has undertaken to reduce greenhouse gas emission by 25% by 2030 compared with 2016. The outcome for 2018 was 5.0% 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 handling at the end of the life cycle for sold products (Scope 3) by 18% by 2030 compared with 2016. The outcome for Scope 3 will be reported as of 2019.

Electricity consumption 2018



Distribution of fuel consumption 2018



All biofuels are renewable, the others are fossil-based (non-renewable)

H7. ENERGY AND AIR EMISSIONS/SCIENCE-BASED TARGETS, CONT.

Energy and emissions to air

		Essity						Subsidiaries with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Production	ktons	2,969	3,063	3,073	581	579	532	317	332	320	3,867	3,975	3,926
Energy utilization													
Electricity													
Purchased electricity	GWh	3,560	3,593	3,657	461	451	423	276	275	292	4,297	4,319	4,372
Heating/steam													
Purchased heating/steam	TJ	901	687	679	3	13	16	0	0	0	904	700	695
Fuels													
Biofuel	TJ	4,626	4,414	4,923	16	25	29	0	0	0	4,642	4,439	4,953
Fossil fuel	TJ	25,306	25,515	25,772	389	428	418	1,255	1,222	1,150	26,949	27,165	27,340
Total fuels	TJ	29,932	29,929	30,695	405	453	448	1,255	1,222	1,150	31,591	31,604	32,292
Total energy	GWh	12,125	12,097	12,372	574	580	551	625	615	612	13,324	13,292	13,535
Energy intensity (specific energy used)	GWh/ktons	4.1	3.9	4.0	0.99	1.00	1.04	2.0	1.8	1.9	3.4	3.3	3.4
Air emissions													
NOx as NO_2	tons	1,758	1,827	1,911	17	21	21	23	24	26	1,799	1,872	1,958
SOx	tons	664	775	752	0	0	0	13	14	16	676	789	768
Dust	tons	116	122	135	0	0	0	5	5	5	122	127	141
CO_2 Scope 1	ktons	1,419	1,433	1,443	24	27	31	75	73	69	1,517	1,532	1,543
CO_2 Scope 2	ktons	1,159	1,256	1,277	179	181	176	92	86	91	1,430	1,523	1,544
CO_2 biogenic	ktons	474	459	524	0	0	0	0	0	0	474	459	524
Carbon intensity (Scope 1 and 2)	ktons/ktons	0.87	0.88	0.89	0.35	0.36	0.39	0.53	0.48	0.50	0.76	0.77	0.79

H8. WATER

Essity's Group target for water is that the company's tissue operations will reduce the level of suspended solids, the volume of water used and organic content (BOD) by 10% by 2020, with 2014 as reference year.

In 2018, levels of suspended solids decreased by 18.5%, volumes of effluent water by 2.9% and the amount of organic content (BOD) by 25.0%.

Usage and discharge of water

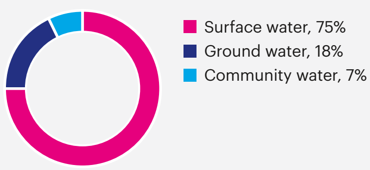
Most of Essity's water is used to transport fibers during production processes and the remainder is mainly used as cooling water. 75% of the water used is drawn from surface sources. Essity's reporting of water usage states totals for surface water, groundwater and municipal water systems. Essity's effluent water is divided into cooling water and process water. Cooling water has simply been heated and is not contaminated in any way. The total volume of discharged water was 93 million cubic meters. The water is treated using mechanical and biological treatment systems. The figures for 2018 refer to process water emissions.

The emissions to water stated in the tables comprise COD, BOD, suspended solids, AOX, P and N. Methods of measuring differ in some respects.

In 2018, the Group used 100 million cubic meters of water in pulp and paper production.

Seven of Essity's wholly owned production facilities are located in so-called water-stressed areas. The sites accounted for 6% of Essity's total water consumption in 2018, distributed between 40% from surface sources, 28% from groundwater and the remainder from recycled water and municipal water systems.

Water extraction 2018



H8. WATER, CONT.

Water

		Essity						Subsidiaries with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Water													
Water extraction	Mm^3	100	101	101	0.81	0.32	0.35	3	3	3	103	104	104
Discharges of water	Mm^3	93	93	93	0	0	0	2	2	2	95	95	95
Water consumption	Mm^3	6.7	7.8	8.3	0.8	0.3	0.3	0.8	0.9	0.7	8.2	9.0	9.3
Water emissions													
COD	tons	6,316	6,620	6,930	0	0	0	733	900	967	7,049	7,520	7,897
BOD	tons	673	654	896	0	0	0	185	229	262	859	884	1,157
Suspended solids	tons	815	827	1,074	0	0	0	186	242	250	1,001	1,069	1,324
AOX	tons	3	5	4	0	0	0	0	0	0	3	5	4
P	tons	44	38	43	0	0	0	0	0	0	44	38	43
N	tons	198	235	377	0	0	0	1	3	5	199	238	381

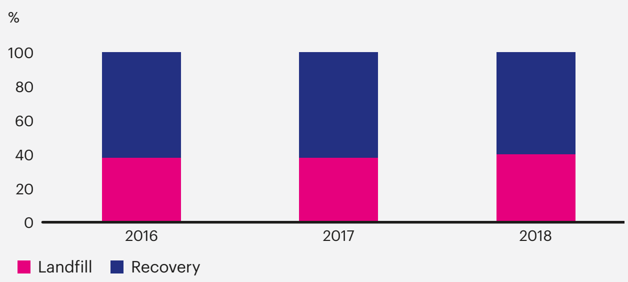
H9. WASTE

Essity's target for production waste is that all waste from all production units will be subject to material and energy recovery by 2030. In 2018, Essity's production waste amounted to a total of 1.65 million tons. In Essity's production process, particularly when recovered fiber is used as input goods, waste is generated in the form of ash, sludge, organic waste and plastic. The production sites work to reduce waste and to find alternative solutions for their waste. In 2018, a significant part (1 million tons) was recovered as raw materials for other industries, such as the construction industry, or as an energy source. The remainder was sent to landfill.

The solid waste reported by Essity is waste that is sent to landfill and recycled waste. Recycled waste refers to materials that can be used as raw materials in other industries, such as the cement, brick-making and construction industries. This includes waste generated in the production process. Some of the waste can be composted or used for energy extraction. By reducing the amount of production waste sent to landfill and instead recycling the waste or extracting energy from it, greenhouse gas emissions can be reduced, thereby helping Essity to achieve its Science-Based Targets.

A very small proportion (0.2% or 3,200 tons) is hazardous waste, which is primarily waste oil, but also includes organic solvents, batteries and strip lights.

Waste



Waste

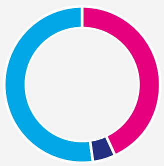
		Essity						Subsidiaries with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Solid waste													
Landfill and incineration	tons	654,295	621,047	664,791	4,710	5,599	6,245	8,104	7,305	10,208	667,110	633,951	681,244
Recovery	tons	819,019	882,185	966,134	56,143	55,887	46,539	111,548	102,392	100,246	986,710	1,040,464	1,112,919
Total waste	tons	1,473,314	1,503,232	1,630,925	60,853	61,486	52,784	119,652	109,696	110,454	1,653,820	1,674,415	1,794,162

H10. TRANSPORT

Raw materials are transported to Essity's production plants and finished products are delivered to Essity's customers. Essity uses external suppliers for most of its transportation needs. Essity's total transportation amounted to 14 (13, 13) billion ton-kilometers. Sea freight accounts for the greatest portion of Essity's transport and the remainder consists of road and rail. The Group's total carbon emissions from transport in 2018 amounted to 480,000 (457,000, 517,000) tons.

Emissions from transportation is included in Essity's report of Scope 3 objectives in Science-Based Targets. Emission data for 2016 and 2017 was updated to bring it into line with the guidelines for Science-Based Targets.

Distribution of transport usage 2018



H11. SUPPLY CHAIN MANAGEMENT

Essity's target for responsible sourcing is that all of our sourcing is to be from suppliers that share the company's values, as defined in Essity's Global Supplier Standard. This is to ensure responsible business methods and respect for human rights. By 2020, the aim is to source 100% of Essity's procurement spend from suppliers that undertake to commit to the criteria specified in the Global Supplier Standard. In 2018, 71% (64) of the procurement spend was sourced from suppliers who fulfill this criteria.

Essity has an established process to perform continuous risk assessments of the company's suppliers and sourcing categories. The aim is to secure deliveries and minimize risks linked to the company's sourcing. Certain materials, such as cotton and wood fiber, are considered to have higher risk lower down in the value chain. Essity takes specific measures here, such as audits of subcontractors, or chooses certified raw materials that guarantee more sustainable extraction and production. In 2018, Essity has continued to implement sustainable sourcing linked to the Medical Solutions product category (previously BSN medical, which was acquired in 2017) by introducing the same working methods as used by other suppliers.

Ethical audit results

During 2018, Essity evaluated the outcome from 59 ethical supplier audits, of which 30 were carried out by SGS on Essity's behalf in China, Romania, Russia, Brazil, Spain, India, Israel and Mexico. In addition, 29 ethical audits performed on behalf of other customers of the suppliers were approved by Essity.

Essity is informed within 24 hours in cases of critical observations. To date, this type of action has been necessitated due to rare cases of excessive overtime, overtime not being paid at a premium, or no evidence of fire drills being conducted in the last 12 months. No agreements with strategic suppliers were terminated on the grounds of sustainability-related non-compliance in 2018.

Risk exposure in Essity's supplier base

Approximately 81.1% of Essity's supplier base is located in Europe, 18.4% in North and South America and 0.5% in Asia/Middle East. Many of the strategic suppliers' production facilities located in Asia and Latin America belong to large multinational corporations based in Europe and the US. This is a conscious choice by Essity and reduces the social and ethical risks within the supply chain.

Global and regional strategic suppliers of raw materials and merchandise represent about 76% (61) of Essity's procurement spend. 21% (22) of suppliers' manufacturing units are located in high-risk countries according to the Maplecroft Human Rights Index. These suppliers are in scope for ethical audits with a focus on health and safety, human rights, employment conditions and corruption. Essity has various tools to assess the need for an ethical audit, such as a low rating in Sedex, a low health and safety score in Essity's supplier qualification audit or warning signals in conjunction with Essity's regular risk assessments. Sedex is an online database that enables suppliers to share information with their customers on their status in areas such as labor conditions, health and safety and business ethics. At the end of 2018, Essity had a total of 694 (481) supplier plants that share this type of data via Sedex.

H12. CERTIFICATIONS

Reliable management systems, which are certified by a third party, play an important role in Essity's corporate responsibility. Essity uses the certified environmental management system ISO 14001 and EMAS (the EU's Eco Management and Audit Scheme). A large number of production units are certified in accordance with ISO or/and EMAS. ISO 9001 is the most important quality management system used by Essity. Essity implements the international standard OHSAS 18001 (Occupational Health and Safety Assessment Series) to ensure the use of uniform processes throughout the Group and that Essity's units continuously improve workplace-related health and safety. OHSAS specifies requirements regarding the organization's occupational health and safety management systems.

Certified volumes, Essity's main sites[1)]

		Consumer Tissue and Professional Hygiene			Personal Care		
		2018	2017	2016	2018	2017	2016
ISO 9001	%	73	73	77	97	97	96
ISO 14001	%	80	85	86	86	85	85

1) A main site is a production facility that is wholly owned by Essity and that has 100 or more employees.

H13. CODE OF CONDUCT AND WORK WITH ANTI-CORRUPTION

Essity´s target is for all employees to receive regular training in the Code. During 2018, 90% of all new employees had received training in Essity's Code of Conduct.

Essity has an anti-corruption e-learning course, translated into 21 languages, which is included in onboarding programs. Essity also trains employees using e-learning courses on EU competition law and US antitrust legislation.

Risk analysis

Essity's human rights and corruption risk analysis is based on assessments carried out by Amnesty, Transparency International and Sedex. Approximately 30% of Essity's revenue is generated in countries with a high risk of human rights violations. About 31% comes from countries with a relatively high risk of corruption. In the 2018 Sedex assessment, all of Essity's main facilities received a low to medium risk classification.

Reported breaches

In 2018, 81 (63, 71) cases of potential breaches of laws or of the Code of Conduct were reported to Essity's whistleblower function. Of the 81 reported complaints, 24 were still subject to investigation at year-end. Among the reported complaints, three related to the suspicion of corruption. All of the three investigations were closed during the year without any corruption being identified and no one was dismissed on suspicion of corruption. Other reported complaints included 58 HR-related incidents and concerned accusations of discrimination and harassment and the remaining 20 cases concerned potential violations of the company's other policies.

Internal audits conducted of the Code of Conduct

In 2018, Code of Conduct audits were conducted at two sites in Colombia and South Africa. Both are acquired units from BSN medical and a number of areas for improvement were identified to raise levels to normal Essity standard, in areas including working environment, health and safety. In addition, there was little or no knowledge of BSN medicals' or Essity's Code of Conduct among employees. An action program is in place and has been implemented or will be implemented in 2019.

Internal audits conducted of business ethics

In 2018, business ethics audits were conducted in the US, Mexico, the UK and Indonesia and of exports to Kazakhstan and countries in the Middle East. The audits in the US, Mexico and Indonesia related to the acquisition of BSN medical units in 2017. These have a number of areas for improvement to reach Essity's standard. For example, staff require further training in the Code of Conduct and other policy documents, performance reviews need to be introduced and encryption of e-mails is necessary. The audit in the UK resulted in few and minor improvement measures. The unit for export sales was generally considered to follow Essity's guidelines but implemented internal training in the Code of Conduct and other policy documents needs to be better documented. Action plans are in place and have been carried out or will be carried out 2019.

Ongoing anti-trust cases

In May 2018, the Andean Community imposed fines of approximately USD 18m on Productos Familias S.A.'s operations in Ecuador and Colombia. The company has appealed the decision. In the same year, the Hungarian competition authority withdrew its investigation into the company. In early 2019, the Supreme Court in Spain rejected the company's appeal against the Spanish competition authority's decision to impose a fine from May 2016.

H14. EMPLOYEES

In 2018, Essity comprised on average 47,222 (46,385, 42,149) employees in some 50 countries, of whom 34% (34, 32) are women. The employee turnover rate is 15% (14, 13). The majority of Essity's employees are permanent/full-time employees and a minor share, about 5%, are temporary/part-time employees.

Individual development and salary statistics

In 2018, 88% (92, 90) of white-collar employees participated in performance management reviews. The corresponding number for blue-collar employees is 78% (80, 85).

Essity strives to provide salaries aligned with market terms, based on the executive's position and local labor market. Unjustified salary differences should not exist. In three of the countries, France, Germany and Sweden, where Essity has most employees in wholly owned operations, salary analyses are conducted annually that include comparisons between men's and women's salaries. In France, salaries for women on managerial levels range between 96% and 106% of their male counterparts, depending on the position held. For women on non-managerial levels, the corresponding figures were between 101% and 105%. In Germany, salaries for women on managerial levels range between 85% and 88% of their male counterparts, depending on the position held. For women on non-managerial levels, the corresponding figures were between 97% and 129%. In Sweden, salaries for women on managerial levels range between 88% and 96% of their male counterparts, depending on the position held. For women on non-managerial levels, the corresponding figures were between 97% and 102%. Essity continuously endeavors to narrow unjustified pay gaps and differences in other employment conditions.

Training

One prioritized area is to develop the potential of all employees and Essity's strategy is that most of this development should take place in daily work. Essity offers a global leadership platform, and approximately 700 managers took part in 2018. 290 people participated in the mandatory one-day onboarding program for all newly appointed managers. 240 participated in Core 1, a six-day program to develop managers who have been in their role for six to 12 months with a focus on leadership skills. Core 2 is conducted for more experienced managers, which is a leadership program to develop people's capabilities to lead in a complex environment, engage people and manage change. Creating Value is another course to further strengthen participants' capabilities in strategic leadership areas. In 2018, a total of 70 people took part in this program. During 2018, great emphasis was put on managing change and more than 100 managers took part in training about change management.

Other programs include the Hygiene Academy, which offers training in brand activities, digital marketing and innovation. 490 people in total took part in these programs. Essity has also established a training program in sustainability with the aim of improving understanding of sustainability's impact on products and services, customers and consumers.

The average number of training hours per employee was 15.

Diversity

In 2018, the proportion of women among Essity's top management was 25% (36, 33). Among senior management, the proportion of women was 26% (27, 25) and 27% (23, 27) among senior/middle management.

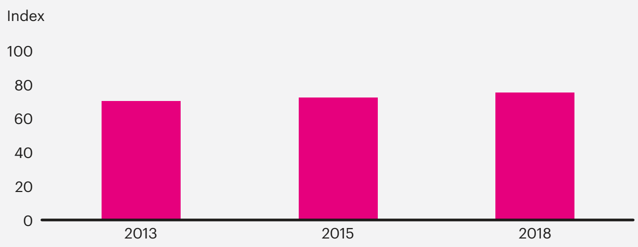
Senior management comprised 17 (18, 21) different nationalities and the corresponding figure was 39 (36, 32) for senior/middle management. Encouraging greater diversity is part of Essity's leadership platform and succession planning.

Leveraging a strong winning culture

Essity regularly carries out employee surveys. Employees are the company's main asset and an employee survey was held in 2018 that covered 31 statements at five levels. The statements were updated to reflect Essity's focus on hygiene and health and the company's new Beliefs & Behaviors. To achieve greater efficiency, the survey was carried out digitally for the first time. The results are expressed as indexes for Care, Committed, Courage, Collaboration and Engagement, as well as an overall Essity index. The response rate var 80% (88% in 2015). Essity's index var 75 (72 in 2015) on a scale of 1–100. Based on the outcome of the employee survey, all teams will develop and implement action plans to further strengthen Essity and make the company an even better place to work.

H14. EMPLOYEES, CONT.

Essity's employee index



Employee relations

Union involvement varies among Essity's countries of operation, but on average 63% (61, 54) of Essity's employees are covered by collective agreements.

There are health and safety committees on which representatives of about 82% (86) of employees serve.

The notice period in connection with organizational changes in the Group varies, but averages about five weeks.

WASH pledge

As a hygiene and health company, Essity wants its employees to enjoy first-class standards when it comes to workplace hygiene. Essity reported its WASH (Water, Sanitation and Hygiene) Pledge for the first time in 2016. The pledge is an initiative linked to the World Business Council for Sustainable Development (WBCSD). By signing the pledge, Essity undertakes to comply with a prescribed workplace WASH standard for its wholly owned units within three years. This includes areas such as workplace sanitation and health issues, as well as training to improve employees' awareness.

H15. HEALTH AND SAFETY

Essity's Group target is to decrease the accident frequency rate by 50% in the 2014–2020 period. In 2018, the accident frequency rate declined by 1% year-on-year to 3.8 (3.8, 4.1) and 39% compared with the base year of 2014.

In 2018, Essity developed a tool to measure and assess physical, mental and social health. The tool compiles local reactive, proactive and preventive efforts and provides feedback with practical improvement proposals. The tool will be launched worldwide in 2019.

Group-wide key performance indicators (KPIs)

In recent years, Essity has worked intensively to systematize and improve its safety work. Essity uses the following Group-wide KPIs:

- Number of Lost Time Accidents (LTA): accidents that result in an employee missing the next regularly scheduled work day or shift.
- Days Lost due to Accidents (DLA): number of work-days lost due to an LTA.
- Accident Severity Rate (ASR): The DLA / LTA.
- Accident Frequency Rate (FR): LTA / 1,000,000 hours worked.
- Incidence Rate (IR): LTA / 200,000 hours worked.

Health and Safety, key figures[1)]

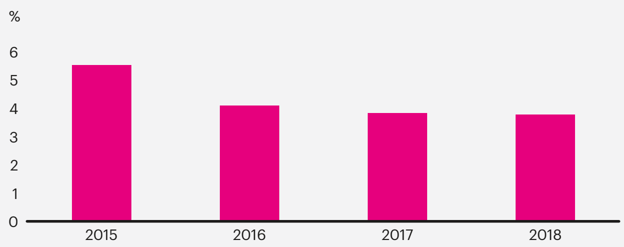
	2018	2017	2016	2015
Average headcount	27,900	27,100	24,900	24,200
Lost Time Accidents, LTA	214	210	207	281
Contractor Lost Time Accidents, CLTA	50	34	33	33
Days Lost due to Accidents, DLA	5,230	4,877	5,201	6,378
Accident Severity Rate, ASR	24.4	23.2	25.1	22.7
Accident Frequency Rate, FR (LTA/1,000,000 WH)	3.8	3.8	4.1	5.5
Incident Rate, IR (LTA/200,000 WH)	0.8	0.8	0.8	1.1
Fatalities (employees)	0	0	1	0
Number of zero-accident sites	27	26	19	17
Number of sites included in reporting	85	85	72	70

1) 100% cover for production facilities and excluding sales and administration offices.

Sickness absence

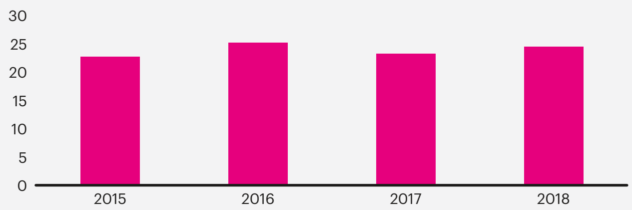
Using information supplied by 15,884 employees, average sickness absence in 2018 was 4.92%. The corresponding figures for 2017, 2016 and 2015 were 4.86% (15,962 employees), 4.88% (16,258) and 4.95% (16,367), respectively.

Accident Frequency Rate (FR)[1)]



1) LTA/1,000,000 WH.

Accident Severity Rate, ASR[1)]



1) Lost days in relation to the number of accidents.

PC15. PROPOSED DISPOSITION OF EARNINGS

Annual accounts 2018

Disposition of earnings Essity Aktiebolag (publ)	
Non-restricted equity in the Parent Company:	
retained earnings	71,696,586,104
net profit for the year	16,162,101,468
Total	**87,858,687,572**
The Board of Directors and the President propose:	
to be distributed to shareholders, a dividend of SEK 5.75 per share	4,038,469,312
to be carried forward	83,820,218,260[1)]
Total	**87,858,687,572**

1) The company's equity would have been SEK 340,640,501 lower if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14 of the Swedish Annual Accounts Act.

The Board of Directors and President declare that the combined financial statements that comprise the consolidated financial statements for the 2018, 2017 and 2016 fiscal years have been prepared in accordance with the International Financial Reporting Standards adopted by the EU and that disclosures herein give a true and fair view of the Group's financial position and results of operations. The Parent Company's financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Board of Directors' Report provides a fair review of the Parent Company's and Group's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, February 21, 2019

Ewa Björling
Board member

Pär Boman
Chairman of the Board

Tina Elvingsson Engfors
Board member,
appointed by the employees

Maija-Liisa Friman
Board member

Annemarie Gardshol
Board member

Magnus Groth
President,
CEO and
Board member

Bert Nordberg
Board member

Louise Svanberg
Board member

Örjan Svensson
Board member,
appointed by the employees

Lars Rebien Sørensen
Board member

Barbara Milian Thoralfsson
Board member

Niclas Thulin
Board member,
appointed by the employees

Our audit report was submitted on February 21, 2019
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

PC16. AUDITOR'S REPORT

To the general meeting of the shareholders of Essity AB, corporate identity number 556325-5511

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Essity AB (publ) except for pages 39–55 and 114–121 for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 6–8 and 20–122 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover pages 39–55 and 114–121. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

VALUATION OF GOODWILL AND OTHER INTANGIBLES ASSETS (TRADEMARKS)

Description	How our audit addressed this key audit matter
The value of goodwill and other intangibles (trademarks) with an indefinite useful life as of 31 December 2018 amounted to 46,5 billion SEK. An impairment test is a complex process and contains a high degree of judgment regarding future cash flows and other assumptions. The Company performs annual impairment tests as well as when impairment indicators have been identified. The recoverable amount for each cash-generating unit is determined as the value in use, which is calculated based on the discontinued present value of future cash flows. Key assumptions in these calculations are future growth rate, gross profit and applied discount rate and are presented in Note D1 ("Intangible assets") The process is by nature based on assumptions and judgment, not least because it is based on estimates of how the company´s business will be effected by future market developments and by other economic events, and the underlying calculations are in themselves complex. We have therefore assessed valuation of goodwill and other intangibles assets with an indefinite useful life to be a key audit matter.	In our audit we have evaluated and reviewed key assumptions, applications of recognized valuation practice, discount rate (called WACC – "Weighted Average Cost of Capital") and other source data that the company has used. This has been done by comparing to external data sources, such as forecasts of inflation or assessment of future market growth and by evaluating the sensitivity in the company´s valuation model. We have specifically focused on the sensitivity in the calculations and have made an independent evaluation of whether there is a risk that reasonably probable events would give raise to a situation where the value in use would be lower than the carrying amount. In this assessment we have also evaluated the company´s historical capability to forecast in impairment tests with the amounts that finally turned out, in order to assess the company´s historical precision in its estimates and assessments. We have as appropriate included valuation experts in the team performing our review. Finally, we have evaluated if disclosures provided in Note D1 ("Intangible assets") in the company´s notes are appropriate, specifically with regards to the disclosure of which of the stated assumptions that are most sensitive in calculating the value in use.

REVENUE RECOGNITION AND RELATED SALES INCENTIVES

Description	How our audit addressed this key audit matter
Revenue recognition and accounting for related sales incentives (bonuses and rebates) are areas with a greater degree of estimates and assessments. We have noted that bonuses, rebates and other adjustments of sales prices in some cases can be material. Incentives related to sales are reported as reduction of the company´s revenue. Incentives can for example be structured as percentage reductions on sales, discounts per item, fixed amounts with or without thresholds or in other ways. The company calculates an estimate of final incentives based on the information available the end of the period. We have therefore assessed revenue recognition and related sales incentives to be a key audit matter.	In our audit we have reviewed the company's revenue recognition with focus on bonuses and rebates. We have evaluated the company's revenue process and tested the company's controls within the process. We have also reviewed the accrued costs related sales incentives (bonuses and rebates) to customers as of 31 December 2018 which amounted to 4.8 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2017. Our audit has also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2018. We have also reviewed revenue recognition for non-standard customer agreements. In our audit we have tested larger payouts to the company´s customers that have taken place during 2018 in order to confirm that they are in accordance with signed agreements and also accrued correctly in the accounting. Finally, we have audited manual journal entries related to bonus and rebates in order to confirm that sufficient documentation and suitable attestations exist for these entries.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–5, 9–19 and 127–134. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Specific Standard Disclosures

GRI Standard		Description	Page	Comment/Omission	Topic in Essity's materiality analysis
ECONOMIC					
Indirect Economic Impacts GRI 203: Indirect Economic Impacts 2016	103–1/2/3[1]	Disclosure on management approach (DMA)	42		Risk management
	203-2	Significant indirect economic impacts	13–15		
Anti-corruption GRI 205: Anti-corruption 2016	103–1/2/3[1]	DMA	41–42		Business ethics Transparency
	205-1	Operations assessed for risks related to corruption and the Transparency-significant risks identified	120		
	205-3	Actions taken in response to confirmed incidents of corruption	120		
Anti-competitive Behavior GRI 206: Anti-competitive Behavior 2016	103–1/2/3[1]	DMA	41–42		Business ethics Transparency
	206-1	Anti-trust and monopoly court cases	120		
ENVIRONMENT					
Energy GRI 302: Energy 2016	103–1/2/3[1]	DMA	43–45		Resource efficiency
	302-1	Energy consumption within the organization	116–117		
	302-2	Energy consumption outside of the organization	119		
	302-4	Reduction of energy consumption	116		
Water GRI 303: Water 2016	103–1/2/3[1]	DMA	43		Water use and water purification
	303-1	Total water withdrawal by source	117		
Emissions GRI 305: Emissions 2016	103–1/2/3[1]	DMA	43–44		CO2 emissions Water use and water purification Resource efficiency
	305-1	Direct greenhouse gas (GHG) emissions (Scope 1)	116–117		
	305-2	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	116–117		
	305-3	Other indirect greenhouse gas (GHG) emissions (Scope 3)	119		
	305-4	Greenhouse gas (GHG) emissions intensity	117		
	305-7	NO_x, SO_x, and other significant air emissions	117		
Effluents and Waste GRI 306: Effluents and Waste 2016	103–1/2/3[1]	DMA	42–43		Water use and water purification Resource efficiency
	306-1	Total water discharge by quality and destination	117–118		
	306-2	Total weight of waste by type and disposal method	118		
SOCIAL PERFORMANCE INDICATORS					
Employment GRI 401: Employment 2016	103–1/2/3[1]	DMA	40, 45		Human capital
	401-1	New employee hires and employee turnover	80, 120		
Labor/Management Relations GRI 402: Labor/Management Relations 2016	103–1/2/3[1]	DMA	40, 45		Human capital
	402-1	Minimum notice periods regarding operational changes	121		
Occupational Health and safety GRI 403: Occupational Health and Safety 2016	103–1/2/3[1]	DMA	40, 45		Occupational Health and safety
	403-1	Percentage of total workforce represented in formal joint management-worker health and safety committees	121		
	403-2	Rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities	121		
Training and Education GRI 404: Training and Education 2016	103–1/2/3[1]	DMA	40, 45		Human capital
	404-3	Percentage of employees receiving regular performance and career development reviews	120		
Diversity and Equal Opportunity GRI 405: Diversity and Equal Opportunity 2016	103–1/2/3[1]	DMA	40, 45		Human capital
	405-1	Composition of governance bodies and employee breakdown	46–47, 52–53, 80, 120		
	405-2	Ratio of basic salary and remuneration of women to men	120		
Non-discrimination GRI 406: Non-discrimination 2016	103–1/2/3[1]	DMA	40, 45		Business ethics Transparency
	406-1	Actions taken in incidents of discrimination	120		
Freedom of Association and Collective Bargaining GRI 407: Freedom of Association and Collective Bargaining 2016	103–1/2/3[1]	DMA	40, 45		Business ethics Transparency
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	120		
Child Labor GRI 408: Child Labor 2016	103–1/2/3[1]	DMA	40–41		Business ethics Transparency
	408-1	Measures taken to eliminate child labor in risk areas	120	No Essity sites were identified as high-risk sites by Sedex.	
Forced or Compulsory Labor GRI 409: Forced or Compulsory Labor 2016	103–1/2/3[1]	DMA	40–41		Business ethics Transparency
	409-1	Measures taken to eliminate forced or compulsory labor in risk areas	120		
Human rights GRI 412: Human Rights Assessment 2016	103–1/2/3[1]	DMA	40–41		Human rights Business ethics Transparency
	412-2	Employee training on human rights	120	Work in the area of human rights takes many different forms via training sessions, for example, through the Code of Conduct.	
Supplier Social Assessment GRI 414: Supplier Social Assessment 2016	103–1/2/3[1]	DMA	40, 43		Human rights Business ethics Transparency
	414-2	Significant potential and actual negative impacts in the supply chain and actions taken	119		
Marketing and Labeling GRI 417: Marketing and Labeling 2016	103–1/2/3[1]	DMA	17		Customer and consumer satisfaction Product safety
	417-1	Product information required by procedures	42		

[1] GRI 103: Management Approach 2016

AUDITOR'S REPORT ON THE LIMITED REVIEW AND AUDIT OF THE SUSTAINABILITY REPORT OF ESSITY AKTIEBOLAG (PUBL)

This is the translation of the auditor's report in Swedish.

To Essity AB (publ), corp id 556325-5511

INTRODUCTION

We have been engaged by the Board of Essity Aktiebolag (publ) to undertake a combined assurance engagement of the Sustainability Report for Essity Aktiebolag (publ) for the year 2018. Essity Aktiebolag (publ) has defined the scope of the Sustainability Report to the pages referred to in the GRI index on pages 127–128.

RESPONSIBILITIES OF THE BOARD AND EXECUTIVE MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as defined on page 114, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the Sustainability Report based on the assurance procedures we have performed. Our engagement is limited to historical financial information and does therefore not include future oriented information.

We conducted our engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information. The engagement includes a limited assurance engagement on the complete Sustainability Report and audit on fossil fuels and grid supply data on page 117. The objective of an audit is to obtain reasonable assurance that the information is free of material misstatements. A reasonable assurance engagement includes examining, on a test basis, evidence supporting the quantitative and qualitative information in the Sustainability Report. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. A limited assurance engagement is different from and substantially less in scope than reasonable assurance conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Essity Aktiebolag (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The conclusion based on our limited assurance procedures does not provide the same level of assurance as the conclusion of our reasonable assurance procedures. Since this engagement is combined, our conclusions regarding reasonable assurance and limited assurance are presented separately below.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

CONCLUSIONS

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

In our opinion the information in the Sustainability Report which has been subject to our reasonable assurance procedures have, in all material respects, been prepared in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm, 21 February 2019
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Outi Alestalo
Expert member of FAR

Production facilities[1)]

(Capacity is stated in thousands of tons, unless otherwise indicated, and per year)

Personal Care

Production facility	Country
Annaba	Algeria
Buenos Aires	Argentina
Jarinu	Brazil
Neve	Brazil
Drummondville	Canada
Hubei	China
Zhejiang	China
Cali	Colombia
Caloto	Colombia
Rio Negro	Colombia
San Cristobal	Dominican Republic
Lasso	Ecuador
Radiante	France
Vibraye	France
Emmerich	Germany
Hausbruch	Germany
Goa	India
Shah Alam 1&2	Malaysia
Ecatepec	Mexico
Maquiladora	Mexico
Reynosa	Mexico
Assen	Netherlands
Gennep	Netherlands
Hoogezand	Netherlands
Olawa	Poland
Veniov	Russia
Gemerská Hôrka	Slovakia
Pinetown	South Africa
Valls	Spain
Falkenberg	Sweden
Mölnlycke	Sweden
Kao Hsiung	Taiwan
Ksibet el Mediouni	Tunisia
Gebze (Istanbul)	Turkey
Kartepe	Turkey
Bowling Green	US

Consumer Tissue and Professional Hygiene

Production facility	Country	Capacity
Ortmann	Austria	132
Stembert	Belgium	75
Santiago	Chile	28
Beijing	China	30
Hubei	China	240
Liaoning	China	55
Shangdong	China	110
Sichuan	China	75
Xinhui, Sanjiang	China	440
Yangjiang	China	60
Zhejiang	China	210
Cajica	Colombia	70
Medellin	Colombia	30
Inpaecsa	Ecuador	13
Lasso	Ecuador	26
Nokia	Finland	67
Gien	France	145
Hondouville	France	55
Kunheim	France	50
Le Theil	France	65
Kostheim	Germany	152
Mannheim	Germany	283
Neuss	Germany	112
Witzenhausen	Germany	32
Altopascio	Italy	25
Collodi	Italy	42
Lucca	Italy	120
Monterrey	Mexico	62
Sahagun	Mexico	60
Uruapan	Mexico	40
Cuijk	Netherlands	52
Suameer[2)]	Netherlands	8
Sovetsk	Russia	90
Svetogorsk	Russia	55
Allo	Spain	140
Valls	Spain	137
Lilla Edet	Sweden	100
Manchester	UK	50
Oakenholt	UK	70
Prudhoe	UK	92
Stubbins	UK	55
Tawd Mill	UK	30
Barton	US	180
Harrodsburg	US	55
Menasha	US	211
Middletown	US	100
South Glens Falls	US	64
Converting facility:		
Kingsgrove	Australia	
Lucca	Italy	
Hlohovec	Slovakia	
Telde	Spain	
Ksibet el Mediouni	Tunisia	
Skelmersdale	UK	
Bellemont	US	
Greenwich	US	
Neenah	US	
Total		**4,393**

1) As of December 31, 2018.
2) Non-woven production.

The name Essity stems from the words essentials and necessities.
We are a leading global hygiene and health company that offers products and solutions that are a necessity in everyday life. Hygiene and health are central to people's well-being. Improved hygiene and health are preconditions for a better life and play an essential role in well-being.

That is why we are called Essity.

Essity Aktiebolag (publ)
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Visiting address: Klarabergsviadukten 63
Tel +46 8 788 51 00
Corp. Reg. No.: 556325-5511
www.essity.com

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ENERGY

edp

CHANGING TOMORROW NOW

Four decades innovating and progressing with and through a better energy have made us pioneers of the green revolution. The change has been key to our commitment to offer and build a flexible network of efficient, smart and sustainable energy solutions. Leading the energy transition by investing in renewable energies is more than a responsibility or a vocation. It means taking generations further, promoting the decarbonisation of production and energy consumption. It is our contribution to a more balanced and sustainable, inclusive, diverse and humane planet.

We're changing tomorrow now, anywhere everywhere.

1.1.1.

LETTER FROM THE CHAIRMAN

Miguel Setas

> "The volume of investment planned in the 2021-2025 horizon exceeds 724 million euros, out of which 96% will be developed in the autonomous regions of Asturias, Cantabria and Galicia".

It is my pleasure to present the first Sustainability Report of EDP Redes España, a company of the EDP Group in Spain, created in December 2020 after the acquisition of the Viesgo Group, the shareholding of which is shared by the EDP Group, which holds 75.1%, and the investment fund Macquarie, holding 24.9%.

EDP Redes España brings together the electricity distribution activity carried out by the people and the installations of the companies comprising it: E-Redes, Viesgo Distribución and Begasa, also supported by the entire corporate structure of EDP España.

2020 has been a very complicated year from a social and health-care point of view, and it is impossible to conduct any analysis without mentioning it. The suffered pandemic, which is still affecting us, has forced us to redefine and reorganise ourselves almost immediately, which is the reason why I would like to publicly thank all the human team of EDP Redes España for the effort they have made. Their adaptation, dedication and hard work have allowed us to ensure the continuity and quality of supply, the customer care service and the level of implementation of investments with great efficiency.

The management of the distribution and transmission grids is currently developed in Portugal, Brazil and Spain, and it has been identified as one of EDP's strategic lines due to its future importance as facilitator of the energy transition.

In this scenario, EDP Redes España's strategic goals are:
a) to become a key player in the energy transition in Spain, designing and executing an investment plan that meets the needs of the users of the grids; b) to deliver the highest quality of service and minimise energy losses; c) to strengthen our position as operational leaders, seizing synergies and best practices from the best two companies in the sector in Spain; and d) to increase our innovation capacity, making good use of all the resources of the EDP Group to implement new technologies and services.

02

Commitment to sustainability

EDP remains this year again in the Dow Jones Sustainability World and Europe Index (DJSI), in which it has been uninterruptedly included since year 2008.

In 2020, it obtained a score of 88 points out of 100, which makes it rank 4th in the Index, although it would rank 2nd among integrated utilities.

It should be noted its classification in 10 Best-in-Class criteria: materiality, political participation, supply chain management, environmental reporting, climate strategy, water-related risks, social reporting, human rights, civic responsibility/philanthropy, and relations with stakeholders.

It should also be highlighted its participation in CDP – Disclosure Insight Action (formerly, Carbon Disclosure Project), a non-profit organisation benchmark for investors and other stakeholders, which assesses the performance in climate and water management. The EDP Group has obtained the highest level of performance, Leader, and the maximum classification in both categories, A.

EDP has been part of this index for six years in a row:

HAGA CLICK PARA VER WEB

In 2020, Viesgo has been recognised by the GRESB international index as one of the most sustainable infrastructure companies, including it among the most sustainable companies in the world. In this independent classification, focused on assessing environmental, social and governance (ESG) performance of companies, Viesgo ranks 1st in Southern Europe and 7th among 406 infrastructure companies across the world, obtaining the maximum classification, 96.45 points out of 100.

This recognition values the company's commitment to sustainability and reflects the effort made by all our employees and partners in creating a sustainable business model, as well as the importance for our organisation of ESG factors in the decision-making process.

The protection of biodiversity, the reduction of the carbon footprint, safety and health, and the commitment to work-life balance and to diversity were some of the most valued aspects.

The Sustainability Plan is annually revised taking into account the materiality analysis that is performed every month of November in all the companies of the EDP Group.

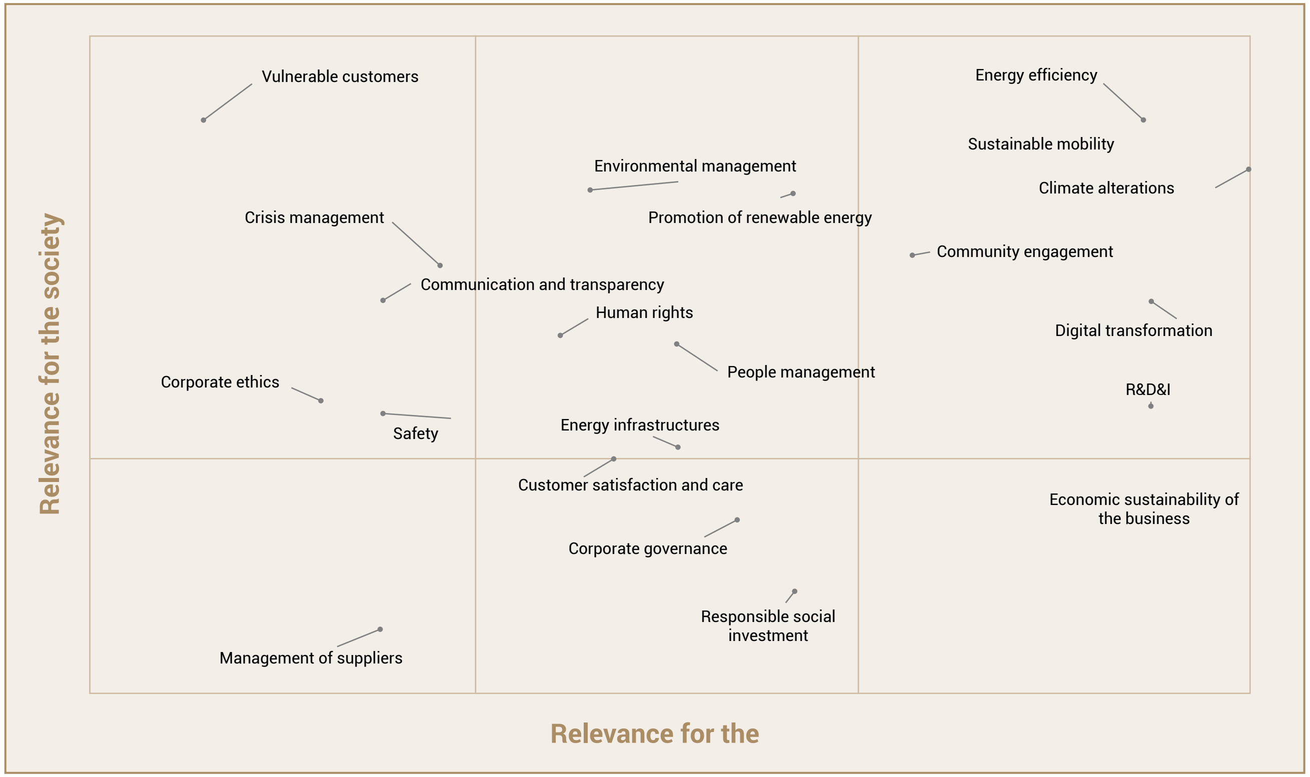
This annual materiality study, aimed at identifying the most relevant aspects for all the stakeholders, includes both positive and negative aspects, current or in the medium-long term.

This direct or indirect participation of the stakeholders, through the study and by listening to their needs and expectations, not only proves transparency in management, but it also allows to identify and prioritise on which aspects their management should be based, both by way of risk management under the precautionary principle and identification of challenges and opportunities.

In the materiality analysis of this year 2020, 21 categories grouping 60 topics have been identified. The most relevant categories have been the following, in this order:

External level	Internal level
1 Sustainable mobility	1 Climate alterations
2 Energy efficiency	2 Sustainable mobility
3 Vulnerable customers	3 Energy efficiency
4 Climate alterations	4 Digital transformation
5 Promotion of renewable energy	5 Innovation
6 Gestión ambiental	6 Economic sustainability of the business

The materiality matrix is as follows:



As emerging topics, the following should be highlighted:

- New ways of working/teleworking: impacts of the labour and social regulations
- Infectious diseases (zoonoses) and biodiversity
- Emotional health
- Water availability for emerging uses risk
- Change in the production level: digitisation and robotisation
- Supply chains in crisis situations (Buy local) publishing
- Bioeconomy: industrial and technological adaptation to climate change and circular economy
- Poverty as a consequence of the current pandemic ('the hunger queues')
- Youth: youth development, training and access to employment
- Positioning vis-à-vis sustainable brands and greenwashing
- Transparency in equality aspects: new regulation and requirement

2021-2025 Sustainability Plan

Taking into account EDP's 12 sustainability goals and the emerging issues in Spain, the Sustainability Plan has been proposed, comprised by 41 initiatives that are grouped in accordance with the ESG criteria:

41

21 ENVIRON-MENT

- Clean generation 3
- Sustainable consumption 6
- Innovation and digital transformation 5
- Just transition 1
- Circular economy 2
- Natural capitall 3
- Adaptation and resilience 1

14 SOCIAL

- 5 Diversity and well-being
- 4 Sustainable business partners
- 5 Inclusive society

6 GOVERNANCE

- 1 Ethical behaviour
- 5 Recognition of sustainability

2.2.2. Regulation

In terms of regulatory developments, 2020 has been characterised by the continuing effects of the approval of Royal Decree-Law 1/2019, which has meant the transfer of several powers to the National Commission for Markets and Competition (CNMC), which, until now, were approved through legal regulations or were in the hands of the Government or the Ministry for Ecological Transition. Several CNMC circulars have been therefore approved in 2020 to regulate the following areas, and which override the current regulations on each of these matters. As regards the electricity distribution scope, we should mention Circular 3/2020 and 7/2020, on the methodology for calculating electricity access tariffs, which are expected to come into force in April 2021.

By the end of 2020, the Government had yet to approve the methodology to establish electricity consumption 'taxes', intended to finance other costs of these sectors (specifically, those related to energy policy) following the entry into force of the methodology for electricity access tariffs. Such methodology was already approved during 2021.

As for the regulated revenues of the electricity sectors, and the economic sustainability of these systems, the Government unveiled a draft in December for the future law creating the National Sustainability Fund for the Electricity System, which aims to release the electricity sector from having to bear on its own the cost of the renewable energy, cogeneration and waste premiums granted to the installations under the specific remuneration regime. With this future law, which is expected to come into force throughout 2021, the financing of these installations will be shared by the electricity, gas and oil derivatives sectors, which will result in more competitive electricity prices compared to other energy sectors.

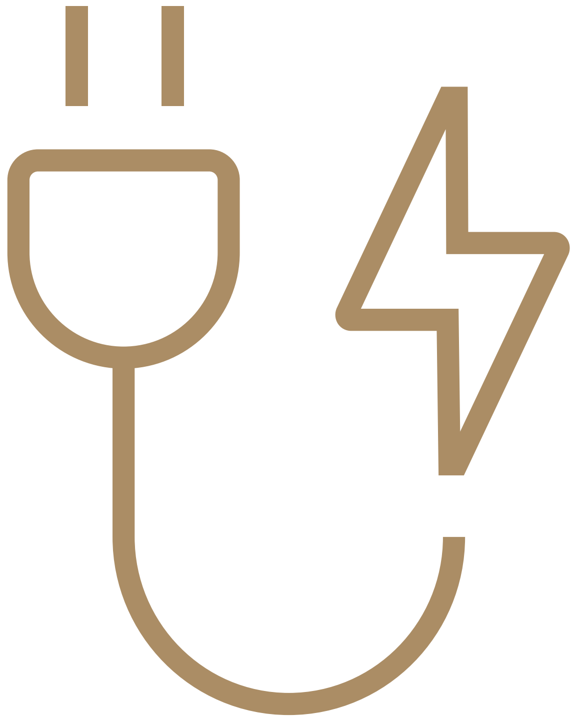
In 2020, the government made progress in the development of the Energy and Climate Strategic Framework, which contains the Integrated Energy and Climate Plan (PNIEC) submitted by Spain to the European Commission in accordance with the requirements of the EU Regulation on the Governance of the Energy Union. Within such framework, several public consultations were held throughout 2020 related to the road maps for technologies and new figures that will contribute to the energy transition, such as energy storage or communities.

There were also significant changes as regards the granting of access to the transmission and distribution grid for renewable energies. Royal Decree-Law 23/2020 introduced a moratorium on granting new accesses to the grid by generation plants (with the exception of self-consumption) until the approval of new rules for granting access to the grid by distribution and transmission companies. Requirements for compliance with time limits were also introduced in this legislation for projects granted access, with a view to reducing grid access speculation. Lastly, the new Royal Decree regulating access and connection to the grid was finally approved in December, and it should be implemented during the first few months of 2021.

The Spanish electricity industry is expected to run a tariff deficit in 2020 due to the decreased demand resulting from the crisis caused by COVID-19, even taking into account that up to 1 billion euros from the auctioning of CO_2 allowances may be used to cover the costs of the electricity system in 2020, as established in Royal Decree-Law 34/2020. However, this deficit is expected to be covered with revenue from the Spanish General Budget and with the surplus from previous years. It recently became known that 2019 ended with a tariff deficit of 528 million euros, after including CO_2 revenues, but that this was covered by part of the tariff surplus from previous years.

With regard to the electricity market, it is worth highlighting the modification of the electricity system's operating procedures to allow demand to participate in the system's compensation services. In order to reduce electricity prices for industrial consumers, the Electro-intensive Consumer Statute provided for in Royal Decree-Law 20/2018 has been finally approved, grouping together the funding granted to these types of consumers. These consumers may receive funds to offset the cost of financing renewables, cogeneration and non-mainland systems included in the grid access tariffs.

With regard to the protection of vulnerable electricity customers, we must not forget that we experienced a very exceptional situation in 2020 due to the COVID-19 crisis, so the Government approved a set of measures to reduce the impact of fixed electricity costs on vulnerable customers during the pandemic and to prevent power cuts. Action was also taken to help industrial and commercial consumers, who were allowed to make their electricity supply contracts more flexible. The cost of these mechanisms, in accordance with Royal Decree-Law 11/2020, will be covered by the Spanish General Budget.



2.5. Continuous improvement

EDP España's continuous improvement programme is the LEAN Programme, which encompasses methodology and tools for solving problems and identifying opportunities through specific working groups in all business units.

LEAN has been in place since 2006, and it was joined by the first teams of the distribution activity in 2007. During 2020, two improvement teams, for Operational Efficiency and Customer Care, were operational, directly involving 14 employees.

The Distribution Lean teams have also adjusted their procedures to the pandemic context, at the same time that they have secured connections and equipment and remote-control operations in the face of the cyberattack suffered by the company, as well as boosting digitisation and customer-focused initiatives.

Among the most relevant initiatives, the following stand out:

Meters App

Mobile application for reading, configuring and programming metering equipment, facilitating its use in many situations, especially when it is not remotely accessible.

This allows different protocols and applications to be unified in a single program for simpler and more affordable operation through an interface that is intuitive (easy to use), consistent (it allows access to almost all the metering equipment installed) and secure (the transfer of information without errors is guaranteed by means of secure communications).

The App has proven to be an excellent tool that gives flexibility to field work, simplifies the operation and facilitates the management of available resources."

Remote registrations

Following the implementation of contract cancellations in 2018 without removing the meter, a remote supply registration process has been implemented with the consequent savings in the process, speed in implementation by reducing response times and facilitating compliance with legal deadlines, as well as improving customer satisfaction, since they can have the service almost immediately without being physically present at the address.

03

For a more just society

3.1. COVID-19 Social Forum

In line with its commitment to the SDGs, EDP created a COVID-19 Social Forum, joining efforts from different areas and the EDP Foundation, with the aim of facing the eventualities that arose from the fight against coronavirus. Thus, partnerships with the stakeholders and other actors were also strengthened, assuming a continued commitment and enhancing our work with regard to the Sustainable Development Goals (SDGs) and the principles of the Global Compact.

Customers

Helping new and regular population groups whom this crisis is putting at risk has been an issue to which EDP could not remain indifferent. Among the aid EDP has set up, the following can be highlighted:

- Flexibility regarding changes of power requested by self-employed workers. More than 4,800 requests for a power reduction were managed. This measure makes the customers' situation easier and, especially, benefits medium and small enterprises whose activity was reduced and which needed to decrease the usual power, thus cutting the fixed cost of the electricity bill.
- No power cuts were applied to vulnerable customers during the pandemic. Additionally, during the first state of alert, power cuts were prevented for all customers and such cuts were personally managed, putting the focus on guaranteeing the people's well-being.
- Free customer service for failures in the installations of EDP's vulnerable customers.
- In the first days of the state of alert, given the need to guarantee as much as possible the power supply to the most important hospitals, we proceeded to check the transformation centres and the medium- and low-voltage lines that supply them.

Social response measures

EDP's response was basically aimed at vulnerable people, participating in projects organised by other entities that needed funding:

- Support to several chemical companies for the production of sanitising gel.
- Collaboration with Cáritas and other NGOs, donating them protective equipment for the most vulnerable people, paying special attention to residential homes for the elderly.
- EDP España's volunteering programme: solidarity letters to stand by the most vulnerable groups due to their personal situation, age or health, such as those in residential homes for the elderly, reception centres and centres for people with different disabilities, with the aim of keeping them company in their lonely situation as a result of not being able to receive visits.
- Collaboration with the Fundación Banco de Alimentos de Asturias.
- Economic contributions for an amount of 83,000 euros given to Fundación Achalay (Madrid), the soup kitchen

04

To be or not to be

EDP España promotes a potential- and talent-attracting culture that fosters personal and professional growth, opts for flexibility and rewards excellence and merit. All of this in addition to the creation of an environment of respect, diversity and equal opportunities.

5 GENDER EQUALITY

4.1. Equal

During year 2020, the Equality Plan of Hidrocantábrico Distribución Eléctrica (E-Redes) was agreed with all the trade unions with representation in the company (SOMA-FITAG-UGT, ACYP EDP, CSI, CCOO and ELA), being eventually approved in the month of November. As for Viesgo, all the equality matters are gathered in the Collective Bargaining Agreement (published in Official State Gazette no. 186 of 02/08/2018).

The Plan was developed in the Joint Committee on Labour Affairs envisaged in the 3rd Collective Bargaining Agreement, and it was agreed with all the trade union representatives in the Joint Committee on Equality. This Equality Plan is in effect for 4 years, and it has been registered and filed with the Ministry of Labour and Social Economy. With this new Equality Plan, the company keeps making progress in equal opportunities for men and women, thus contributing to achieve gender equality as an essential part of the Sustainable Development Goals.

EDP Redes España promotes

PREVENTION of any behaviour against equality and contribution to the protection of values of effective equality between men and women in their labour relationships.

PROTECTION in the occupational sphere of the values of effective equality and employees' work-personal life balance in the best possible conditions.

COMPREHENSIVE DESIGN of the Equality Plan for all the persons comprising the EDP Redes España Group, men and women.

PROMOTION OF A PROFESSIONAL ENVIRONMENT that fosters equal employment opportunities and prohibits discriminatory practices, paying special attention to the different types of harassment.

Inclusion of the **GENDER PERSPECTIVE** in order to guarantee the effective application of the equality principle in the entire group.

GUARANTEE OF THE HUMAN AND MATERIAL RESOURCES required for the effective implementation of the Equality Plan in a work environment in which all people are treated with respect and dignity.

MONITORING, ASSESSMENT AND CONTINUOUS IMPROVEMENT of the Equality Plan.

With the aim of ascertaining which measures were necessary in order to achieve effective equality, a diagnosis on equality has been conducted in EDP Redes España, through a quantitative and qualitative analysis of the staff situation in gender terms, based on the data available from previous years, as well as on the policies and processes involved.

17,3% Year 2020
Women in EDP España

16,0% Year 2020
Women in management positions

11% Year 2020
Women in worker's representation organs

4.2. Ethical

In September 2020, the General and Supervisory Board approved the Code of Ethics prepared by the Ethics Supplier's Office. This document supersedes the Code of Ethics of October 2013 and the Code of Ethics Regulations of October 2015.

The Code of Ethics is a tool that offers standards and behavioural rules aimed at supporting employees in the decision-making process. It must be highlighted that in no case it prevails over the current laws and regulations, but it supplements them. In EDP, the Code of Ethics is revised every two years, without prejudice to the fact that, if there are grounds for it, it may be subject to extraordinary revisions.

The decisions made by all the employees of the companies of the EDP Group, regardless of their role, geographical location or functional report, as well as the suppliers' and all the stakeholders', are subject to the compliance with the Code of Ethics. In this sense, leaders are responsible for knowing, spreading and guaranteeing the implementation of initiatives that promote ethical culture in the company.

As regards each of the mentioned areas, the Code of Ethics specifies what you must and must not do. Furthermore, in the event of detecting ethical irregularities, an Ethics Channel is made available to all the stakeholders in order to file the pertinent complaints.

EDP's identity is the foundation of the Code of Ethics and is characterised by four features:

Focused on people

- Employees' well-being
- Health and safety
- Representation of the company
- Diversity and inclusion
- Harassment
- Human rights

Changing industry

- Environment
- Energy transition
- Digital revolution
- Entrepreneurship and cooperation

Relationships of trust

- With shareholders
- With customers
- With suppliers
- With communities
- With competitors

Acting with integrity

- Privacy and personal data protection
- Use of the company's information
- Conflict of interests
- Corruption and bribery
- Fight against money laundering and the financing of terrorism
- Use of assets
- Gifts and entertainment

Mobility and career development

The internal mobility policy of the EDP Group has been offering its employees options for development and change within the Group. Employees may apply for the announced vacancies to keep developing, training and growing in the EDP Group. This may be done not only through indefinite opportunities for change, but also through temporary opportunities via the Grow platform (EDP's platform to build a talent market), the projects of which have renewed EDP's culture and offered new efficiencies and sharing of experience and expertise. 45 mobilities have taken place, out of which 22 have been intercompany and 23 intracompany.

Training

The training activity in EDP Redes España in 2020 has been structured in two lines of action, both aimed at the goals established in the Strategic Plan and which respond to two supplementary perspectives:

- Corporate training: gathering all the training actions that develop EDP España's values and generic competences, as well as necessary responsibilities (quality, environment and prevention) and the corporate procedures and tools.

- Specific training: gathering all the training actions considered essential in the process of detecting training needs carried out by each Business Unit of EDP Redes España and which develop technical competences of the positions.

'Reconocer' programme

The goal of the 'Reconocer' ('Recognise') programme, approved by EDP España's Operations Management Committee, is to give visibility to extraordinary and distinguished performances and behaviours, whether on an individual or a team basis.

Within the framework of the 'Reconocer' programme, managers will submit, on a quarterly basis, their proposals to reward the performance of 10 employees and 3 teams.

The recognitions will be shared with the entire company, thus encouraging a transparency and appreciation culture. The reward for being recognised on an individual level is an El Corte Ingles gift card worth €250 for recognised employees, while the recognised teams/projects may choose an activity to carry out from the available catalogue.

Since 2017, EDP España has promoted a recognition culture and policy with the launch of individual badges on AboutMe. Such badges, awarded for collaboration, excellence in execution and problem-solving, have laid the foundations of a positive, productive and collaborative corporate environment. Having reached 1,147 individual recognitions, the total balance is positive.

10 employees

3 teams

1,147 teams

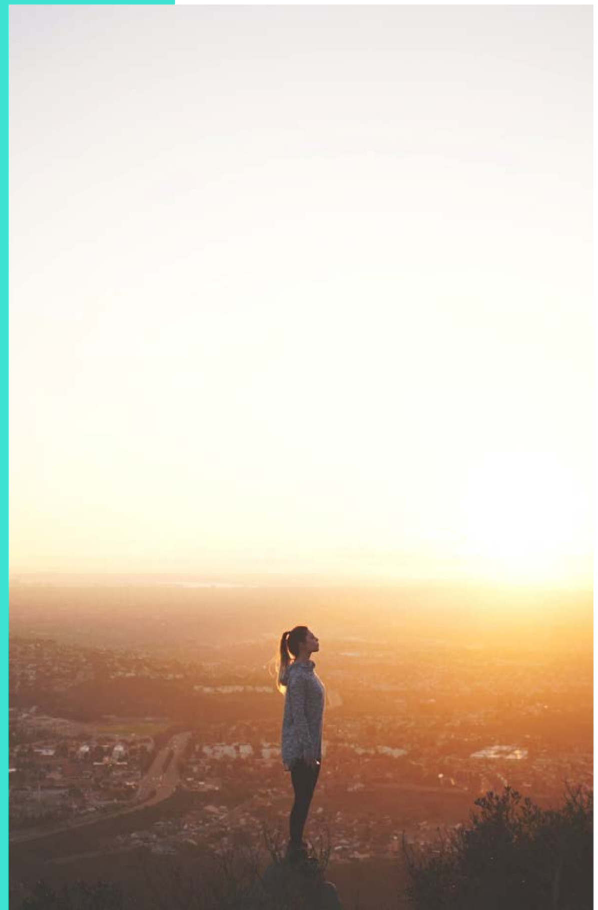
EDP redes España's 2020 Training Plan has been closed with a total of 21,823 hours taught and an engagement of 4,818 attendees, with an average satisfaction level over 8.4 out of 10.

In 2020, the digitisation of the training stands out, with the promotion of online and virtual training via Teams, which has allowed 96% of the taught courses to be on a virtual basis.

PEOPLE

FROM STRIVE
TO THRIVE

Changing tomorrow now.



- EDP Redes España endorses the general principles of: visibility, accessibility, diligent response, objectiveness, free process, confidentiality, focus on the customer, definition of responsibilities and continuous improvement.
- Compliance with the legal requirements: EDP Redes España assumes the responsibility and commitment to meet the legal and regulatory requirements, in all the territorial areas, that apply to the complaint handling tasks.
- Focus on the customer: complaint handling is considered one of the main tools for the customer focus, using the data obtained as source of information about customer satisfaction and the increase thereof.

Loyalty level of our customers

+ 12% NPS

in 2020 vs 2018

NPS and quality in customer care

During 2020, customer care was managed separately in the companies of Viesgo and E-Redes.

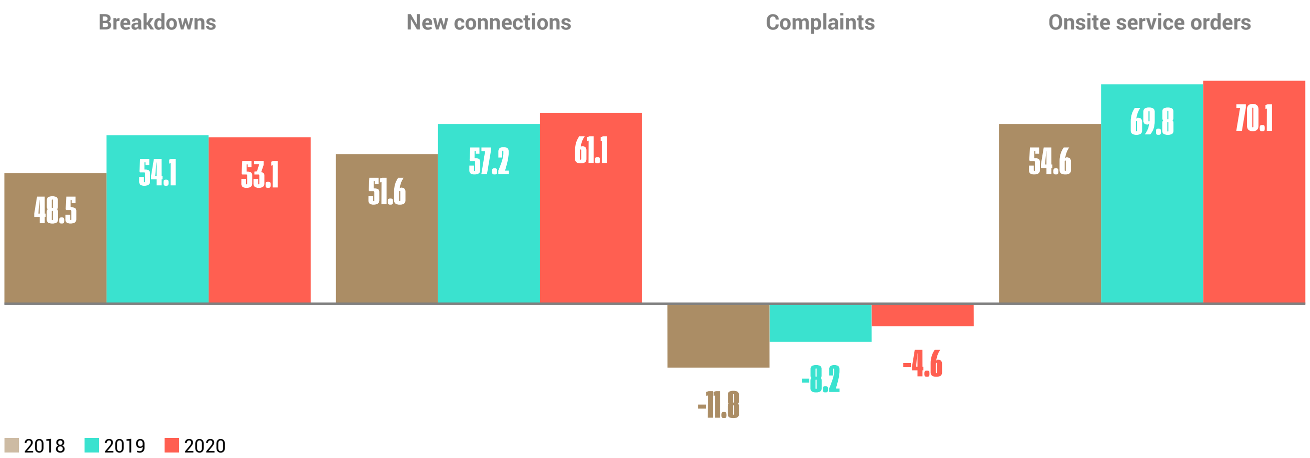
Especially, during the month of March, as a result of the lockdown, the call centres of both companies had to reorganise in record time the customer care service and adjust it to the teleworking system, which was quite a challenge, since there were no precedents.

In Viesgo Distribución, we measure the customer satisfaction level according to the NPS (Net Promoter Score) index, which rates the customers' likelihood to recommend something on a scale from 0 to 10, the data of which are gathered through a simple survey. This index has risen by 12% with respect to 2018.

For the purpose of continuous improvement with our stakeholders, in 2019, Viesgo implemented a plan named 'Improvements in internal and external channels' in order to improve the customer experience through the analysis of the Customer Journey, placing particular emphasis on the critical interactions for our customers, aimed at anticipating and meeting customers' needs, having developed actions plans to optimise our customers' experience.

Likewise, during 2020 and within the action plans derived from the NPS, the 'Diseño modelo de Voz' (Voice model design) project has been launched to continue improving and strengthening our relations with customers and the rest of stakeholders. This project seeks to identify the most relevant variables and indicators based on which the customer voice measurement will be defined, and using the results obtained from the monthly surveys, detect deficiencies and establish areas for improvement to work on. This way, our company proves that every contact the customer makes with us is important, since every time they interact with us, we have the opportunity to improve their experience.

Increasing the loyalty level of our customers



7.1. Sustainability in the supply chain

During year 2020, the Protocol on Sustainability Procedures in the Supply Chain was approved, the purpose of which is the implementation of sustainability criteria in the selection of suppliers and the monitoring of the performance of contracts under such variables.

Thus, an integrated analysis of suppliers has been designed aimed not only at categorising them using sustainability criteria and contracting risks, but also at establishing a stable supplier base, based on the identification of growth opportunities for the suppliers themselves as a starting point for the continuous improvement of the chain.

The Protocol is based on the international ISO 20400 standard, on Sustainable Procurement, and develops an extensive analysis on the criticality of supplies, which allows segmenting the critical contracts and anticipating the mitigation of risks.

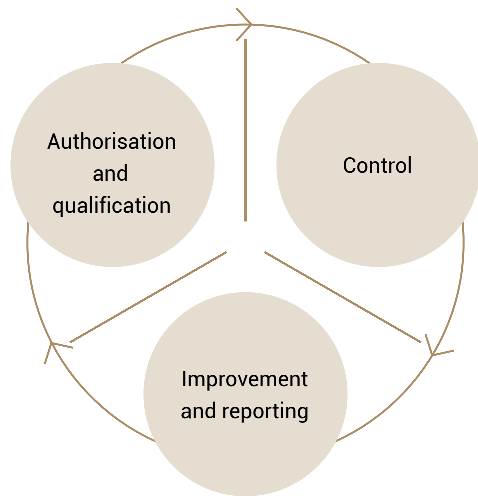
Matrix for the supplier criticality analysis
12 criteria
Data protection Logistic and contractual management Ethics and labour and human rights Environmental and occupational health & safety risks Economic risks
3 segmentation levels: Low risk Medium risk High-critical risk

Likewise, the Protocol includes all the support activities in supplier management, with a holistic vision of the supply service, from registration to monitoring and development of suppliers:

Registration and criticality analysis
- Registration
- Authorisation and qualification
- Supply criticality analysis

Supply and contracting
- Negotiation and contracting

Monitoring and development
- Assessment of performance
- Sustainability assessment (ESG)
- Reporting, feedback and development of suppliers



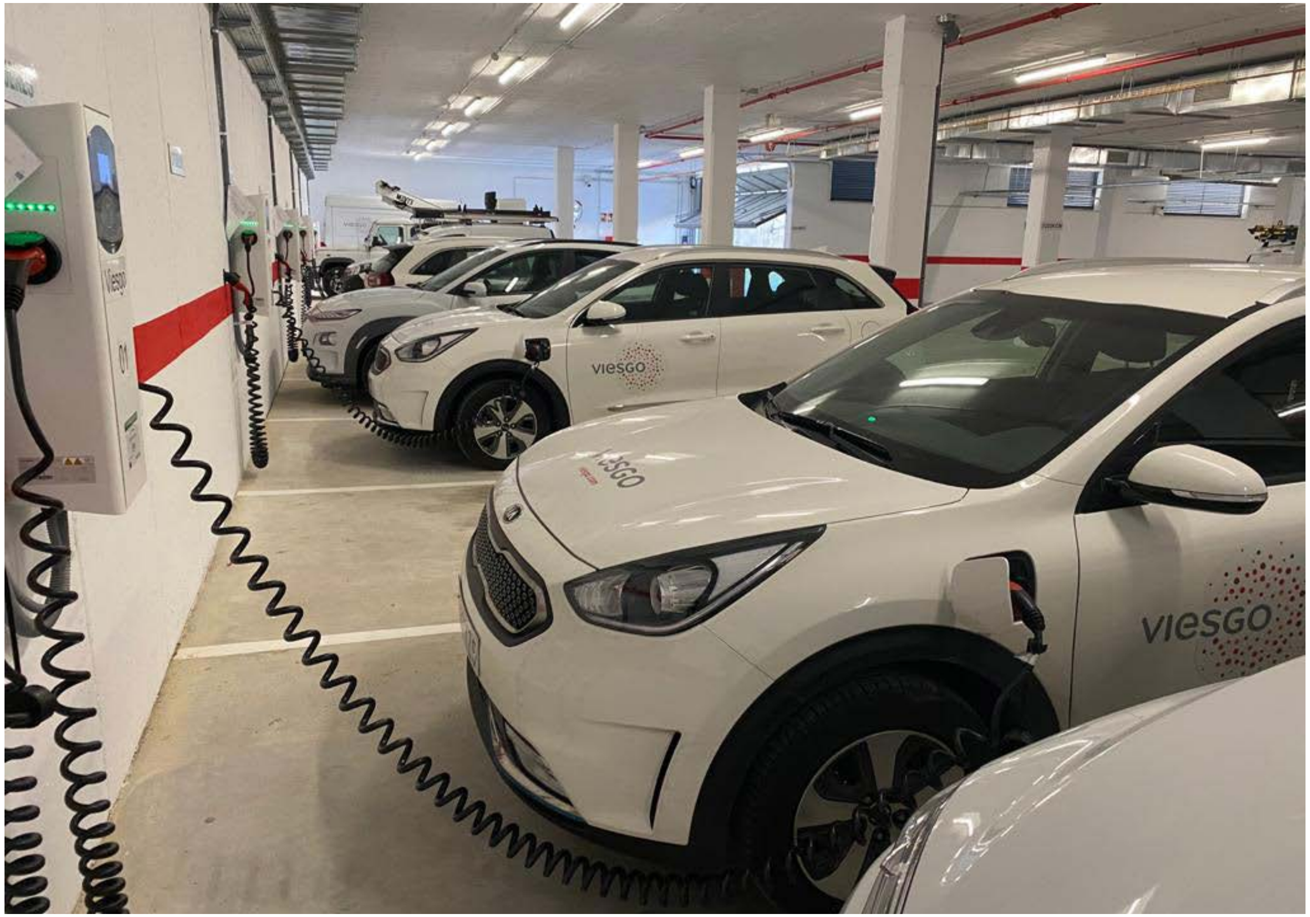
Holistic vision of the supply chain through a 360° supplier analysis

Thus, the Protocol completes both the Code of Ethics of the EDP Group, applied to suppliers, and the Suppliers' Code of Conduct as regards the strengthening of sustainability throughout the entire supply chain. All the suppliers expressly accept EDP's Code of Ethics.

Specifically, the Board of Directors of EDP España has ratified its support to the Protocol on Sustainability Procedures in the Supply Chain approved and in effect in EDP, declaring that it applies to all the supply actions in EDP España.

All aspects related to sustainable suppliers and procurement are available on the corporate website:

CLICK HERE TO GO TO WEBSITE



It should be also highlighted the storage project in San Vicente del Monte (Valdáliga). It is a lithium battery installation through which the municipality can be autonomously supplied for 4 hours, in the event of a grid failure.

Besides, most of EDP Redes España's emissions are indirectly caused by losses in the grid. Losses in the distribution grid are generated mainly in the primary components, that is, in substations and power lines. These losses may be reduced by replacing the grid components with newer and more energy-efficient ones.

Within the actions performed for the purpose of improving this energy efficiency, meters have been installed in high- and medium-voltage lines, which in the future will guarantee more precise or accurate loss values and will locate the grid spots that can be improved, which will help to define actions in specific spots of primary components that will undoubtedly favour the reduction of grid losses and consequently, emissions.

Adapting to climate change

EDP España is provided with a 2020-2022 Climate Change Adaptation Plan, which includes a set of 21 multi-year initiatives, most of which span throughout the life of the plan and will continue being executed after the end of the time scope thereof. The initiatives have been grouped into four categories: management initiatives, specific initiatives to business areas, crosscutting or collaborative initiatives and innovation initiatives.

Among the initiatives specific to electricity Distribution, the following are included:

- Preparation of a climate risk map in Distribution and incorporation into the GIS
- Definition of a catalogue of engineering measures to increase the resilience in the Distribution assets.
- Development of cooling systems based on new materials and techniques.

With the approval of the second Spanish National Climate Change Adaptation Plan (PNACC2), a revision of EDP España's Adaptation Plan has been started in the fourth quarter of 2020 in order to have an updated plan by the beginning of 2021.

This new plan will be aligned with the Spanish plan and will make the most of the opportunities and synergies of the latter, incorporating some new measures and vectors or adjusting the current plan's initiatives as required.

Besides, the new EDP España's Adaptation Plan will be updated with new geographical areas and the study of new impacts, such as, for example, reducing the impact of climate change on health and removing potential cross-border risks from the entire supply chain, among other goals.

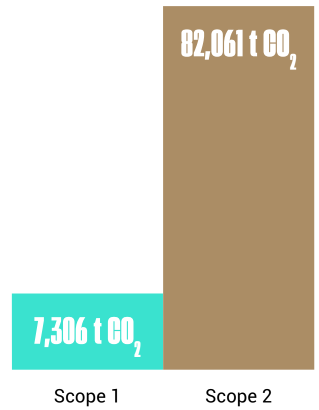
		DISTRIBUTION
Scope 1	Use of fossil fuels	✓
	Use of fluorinated gases in cooling units	✓
	Use of SF6 in electrical equipment	✓
	Own fleet of vehicles	✓
Scope 2	Electricity consumption	✓
	Losses in electricity grids	✓
	Use of chemical products and oils	✓
	Water consumption	✓
	Business trips	✓
	Waste	✓
	Disposals to sewage systems	✓
	Losses in the transmission of electricity with an origin other than EDP	✓

There are several methods for calculating the carbon footprint; some of these rules and methods with wider international recognition are Greenhouse Gas Protocol Corporate Standard (GHG Protocol), UNE-ISO 14064-1, and IPCC 2006 GHG Workbook. The numerous methods recognised on an international level are based on the principles of RELEVANCE, INTEGRITY, CONSISTENCY, ACCURACY AND TRANSPARENCY.

Calculating the carbon footprint of an organisation involves a double opportunity for the latter. On the one hand, it is a first step to establish its greenhouse gas emissions and to devise emission reduction and/or offsetting plans, which will be reflected in the footprint calculation in subsequent years. And, on the other hand, these reductions also involve a reduction of costs, since they entail, in turn, a lower electricity consumption, less transmission expenses, process improvements, etc. In sum, it entails a change of habits and increased environmental awareness.

EDP has announced, in the beginning of 2021, its intention to become carbon neutral by 2030, which entails a clear commitment to drastically reduce its greenhouse gas emissions and offset all those that cannot be eliminated.

2020



2030

Changing tomorrow now.

10

FOCUS ON INNOVATION

01
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09
10
Focus on innovation
11

2020

91

innovation and proof of concept projects with start-ups

2020

41

closed or completed projects and pilots

10.2. Proyectos

In 2020, different actions have been carried out with the aim of transforming the current low-voltage grid into an actual Smart grid: visible, smart and workable. For this purpose, having made notable progress in the sensorization of the low-voltage grid in innovation projects such as FlashBT, in 2020, it was time to provide the grid with an additional smart layer based on machine learning, allowing to measure, control and automate different units thereof in order to make the grid more flexible and efficient. Projects such as KOSMOS and Smart Low Voltage Panel are examples for this, together with the projects LOCATE, a smart management system of the low-voltage grid (Future sensor transformation centre: early detection of breakdowns and penetration of distributed generation) and ARM, a platform allowing to manage and maintain all the protections of the substations, thus facilitating the continuity of supply.

In this line of action, during this year, it has been carried out the Red Marte project, in which a web graphic interface was developed in order to show the model of an actual grid, using for this purpose a database based on graphs, among other technologies. This graphic interface also shows information on the smart meters and other devices connected to the grid. On this system, different algorithms are being developed replicating the actual operation of the low-voltage grid.

Another relevant area of action in E-REDES is focused on the different communication layers present in the grid, in which several innovative projects are being addressed.

The LIBRA project intends to implement a PLC PRIME communications network monitoring system by using the SNMP protocol. An improvement in the communications network will reduce the management cost of the telemetering system, as well as allowing to obtain valuable information to be managed.

As for the project for the optimisation of PLC communications, continuing the PLC communications monitoring project, which identified the main parameters to be controlled to improve PLC communications, it seeks to optimise communications by developing applications that mark the information gaps and send requests for its recovery, as well as to control the communications availability of meters and concentrators.

We should also mention two projects related to vegetation management in electricity routes, in both cases using satellite technology: on the one hand, the pilot project carried out with the company COTESA, implemented in the power lines managed by E-Redes, which has developed a vegetation management system in power lines using high-resolution satellite images; and, on the other hand, in Viesgo's facilities, an early fire detection project based on a fire risk map using satellite technology.

Finally, the project about the publishing of incidents on the website, which aims at posting on E-Redes' website (www.eredesdistribucion.es) all the scheduled works (outages) and breakdowns, identifying in both the supply points affected thereby and informing customers in a proactive way, being also available on Viesgo's website.

HAGA CLICK PARA VER VÍDEO

Incentivare una crescita economica duratura, inclusiva e sostenibile, un’occupazione piena e produttiva ed un lavoro dignitoso per tutti
È il Goal che riassume il senso del business sostenibile. Produttività economica attraverso la diversificazione, l’aggiornamento tecnologico e l’innovazione. Efficienza delle risorse finanziare, umane e naturali. Diritti umani e del lavoro, ambienti di lavoro dignitosi, sicuri e protetti, crescita sociale e professionale. **Cosa intende fare Sesa:** sostenere la crescita economica attraverso la creazione di posti di lavoro con una retribuzione equa che consenta ai collaboratori del Gruppo Sesa di vivere in modo soddisfacente e nel rispetto di criteri di work-life balance. Raggiungere standard più alti di produttività economica attraverso la diversificazione, il progresso tecnologico e l’innovazione. Promuovere politiche orientate allo sviluppo, che supportino le attività produttive, la creazione di posti di lavoro dignitosi, l’imprenditoria, la creatività e l’innovazione, favorendo la crescita delle piccole-medie imprese attraverso l’accesso a servizi digitali. Proteggere il diritto al lavoro e promuovere un ambiente lavorativo sano con massima sicurezza per tutti i lavoratori.

Adottare misure urgenti per combattere il cambiamento climatico e le sue conseguenze
È il Goal della lotta ai cambiamenti climatici, l’emergenza globale primaria. Monitoraggio, mitigazione e adattamento per catene del valore resilienti. **Cosa intende fare Sesa:** integrare le misure di cambiamento climatico nelle politiche, strategie e pianificazione. Sensibilizzare gli stakeholder in merito alla tematica del cambiamento climatico. Promuovere tecnologie per aumentare la capacità effettiva di pianificazione e gestione di interventi inerenti al cambiamento climatico e alla gestione ambientale, favorendo il risparmio delle risorse naturali ed il ricorso a fonti di energia green.

Promuovere società pacifiche e più inclusive per uno sviluppo sostenibile; offrire l’accesso alla giustizia per tutti e creare organismi efficaci, responsabili e inclusivi a tutti i livelli
È il Goal della *business integrity* e della governance sostenibile. Promozione e rispetto di leggi, norme e principi di governance, esterni e interni adottando comportamenti virtuosi nelle relazioni interne e con tutti gli stakeholder, business o non-business. **Cosa intende fare Sesa:** Sostenere iniziative finalizzate a combattere abusi e sfruttamenti, garantire un pubblico accesso all’informazione, in conformità con la legislazione nazionale e con gli accordi internazionali, promuovere e applicare leggi non discriminatorie.

Rafforzare i mezzi di attuazione e rinnovare il partenariato mondiale per lo sviluppo sostenibile
È il Goal della condivisione degli sforzi verso la sostenibilità mediante partnership e investimenti mirati alla creazione di valore condiviso. **Cosa intende fare Sesa:** definire e rafforzare partnership e alleanze per lo sviluppo sostenibile con imprese, associazioni di categoria e università

Sostenibilità come valore e come driver strategico: La sostenibilità costituisce per Sesa un valore e, al tempo stesso, un driver strategico. Un valore, anzitutto, perché, sulla base dei principi di responsabilità sociale d'impresa, l'azienda intende contribuire alla tutela dell'ambiente e al progresso sociale. Ma anche una scelta strategica, perché innovare i modelli di business, migliorare l'efficienza nell'uso delle risorse, ridurre gli impatti ambientali è determinante dal punto di vista della competitività economica e della produttività. Sesa ha progressivamente concentrato energie e impegno per migliorare il proprio profilo di sostenibilità. Attraverso un processo di continuo e proattivo coinvolgimento di management, dipendenti, Team sostenibilità, ma anche analisti e stakeholder istituzionali, Sesa ha approfondito i temi ESG e individuato le priorità per i prossimi anni.

Affinché siano una leva strategica e operativa importante, Sesa ha deciso di legare al loro raggiungimento la remunerazione del management e l'erogazione dei relativi compensi variabili. Avviato in coerenza con le modifiche statutarie deliberate nell'Assemblea del 27 gennaio 2021, finalizzato ad orientare l'impegno degli Amministratori a perseguire il successo e la crescita sostenibile, un importante percorso di valorizzazione e attenzione sui temi legati alla sostenibilità, con l'obiettivo di includere i key driver dei fattori ESG per le componenti variabili della remunerazione, con una incidenza dei parametri non finanziari in misura non inferiore al 50% (fino ad oggi non era prevista alcuna correlazione tra ESG key driver e remunerazione).

In linea con questo percorso di generazione di valore condiviso, Sesa continua a promuovere pratiche di business responsabili a tutti i livelli e in tutti i processi aziendali. Ad esempio, con il rinnovo per il 2021 della partecipazione di Sesa al **Global Compact delle Nazioni Unite**, in cui la società ha assunto il ruolo di *Participant*. Con l'adesione al GCNU, Sesa conferma il formale e sostanziale impegno a promuovere un'economia globale sana, inclusiva e sostenibile, rispettosa dei diritti umani e del lavoro, capace di salvaguardare l'ambiente e coinvolta attivamente per l'integrità del business, in ogni suo aspetto.

CERTIFICAZIONE SALUTE E SICUREZZA NEI LUOGHI DEI LAVORO: ISO 45001 (ex OHSAS 18001)

ISO 45001 (sostituisce la norma OHSAS 18001) stabilisce un quadro per migliorare la sicurezza, ridurre i rischi in ambito lavorativo e migliorare la salute e il benessere dei lavoratori, permettendo così di aumentare le performance in materia di salute e sicurezza a qualsiasi organizzazione che scelga di certificare sotto accreditamento il sistema di gestione. **Società certificate:** ABS Technology S.p.A., Elmas S.r.l., ICT Logistica S.r.l.

ADESIONE AL GLOBAL COMPACT DELLE NAZIONI UNITE

L'adesione all'UN Global Compact delle Nazioni Unite offre una serie di opportunità: adottare una cornice di lavoro stabile e globalmente riconosciuta per lo sviluppo, l'implementazione e la descrizione delle policy e delle pratiche ambientali, sociali e relative alla governance; condividere pratiche eccellenti per sviluppare strategie e soluzioni concrete per affrontare sfide comuni; promuovere soluzioni di sostenibilità in partnership con una rappresentanza ampia di stakeholder; acquisire know-how specifici; migliorare la reputazione aziendale e accrescere la fiducia nell'impresa; istituire un network con altre organizzazioni. **Società certificate:** Sesa S.p.A., Var Group S.p.A

Il Gruppo ha altresì predisposto il piano delle attività per l'ottenimento delle seguenti certificazioni entro il 2022: estensione Certificazione ISO 14001:2015 a Computer Gross, Var Group e Base Digitale; adesione di Computer Gross S.p.A. al Global Compact delle Nazioni Unite.

Corporate Responsibility Awards:

Integrated Governance Index (IGI):

in occasione della ESG Business Conference[4] sono stati pubblicati i risultati dell'Integrated Governance Index (IGI) 2020 sviluppato da **ETicaNews**. Sesa è entrata nella lista delle migliori società del panel composto dalle prime 100 società quotate e le prime 50 società non quotate e industriali. L'IGI è un indice quantitativo che esprime in modo sintetico il posizionamento delle aziende in relazione agli aspetti chiave di sostenibilità. Questo risultato rappresenta un importante riconoscimento del costante impegno di Sesa per la sostenibilità, realizzato grazie ad una prospettiva integrata adottata da tutto il Gruppo.

Leader della Sostenibilità 2021:

la crescente attenzione per un più efficiente uso delle risorse, per la transizione energetica verso fonti meno inquinanti ha spinto il **Sole 24 Ore e Statista**, leader internazionale dell'analisi di dati e trend di mercato, a lanciare l'iniziativa Leader della Sostenibilità 2021[5]. L'indagine ha preso in esame 1.200 grandi aziende con sede in Italia sulla base del rapporto di sostenibilità e del bilancio finanziario pubblicati e ha per oggetto l'analisi della Corporate Social Responsability nelle sue tre dimensioni Economica, Ambientale e Sociale. L'indagine si è conclusa con la selezione di 150 aziende considerate più sostenibili, tra le quali è presente Sesa.

[4] https://www.esgbusiness.it/
[5] https://lab24.ilsole24ore.com/leader-della-sostenibilita-2021/

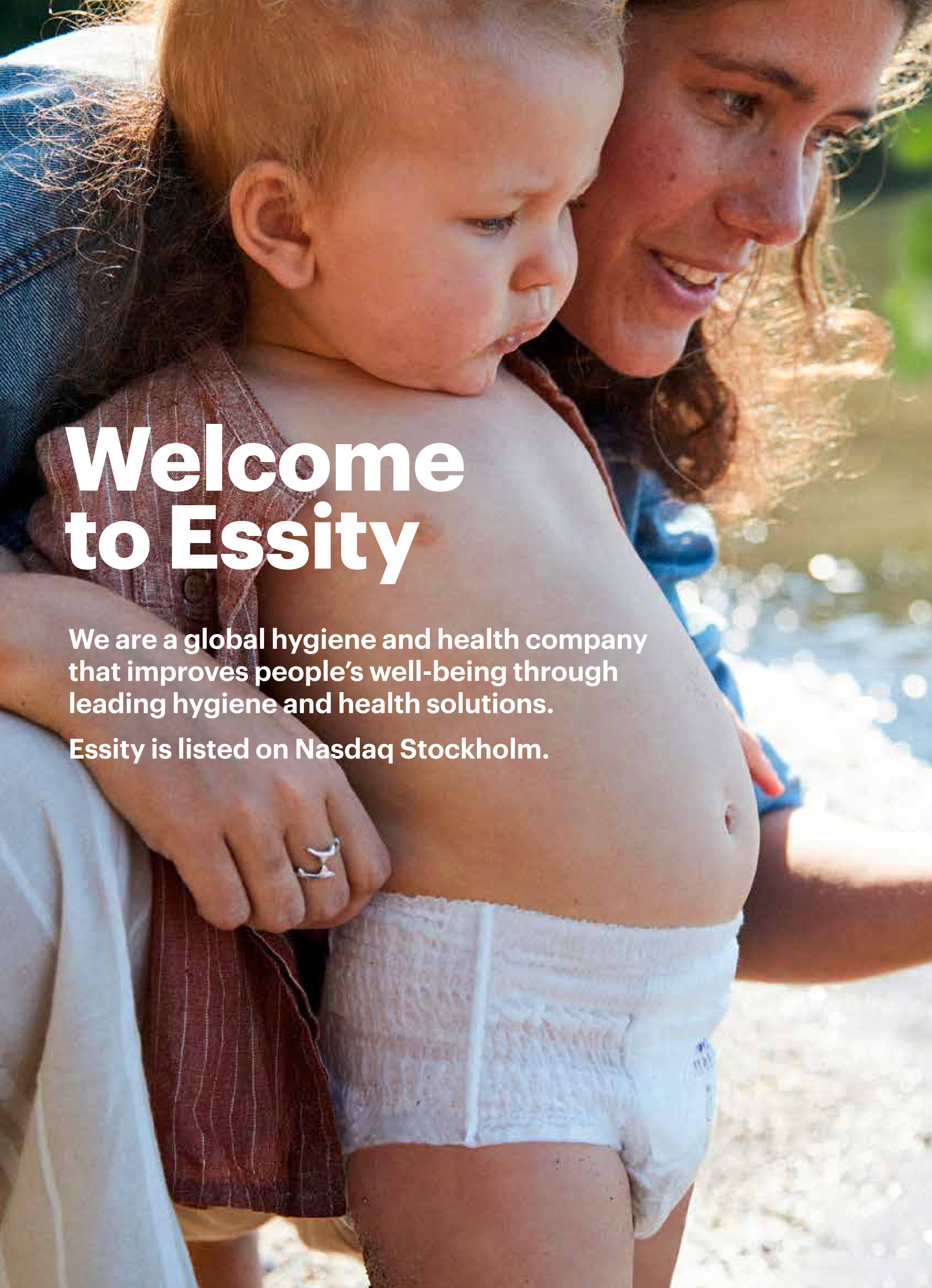
pwc

Relazione della società di revisione indipendente sulla dichiarazione consolidata di carattere non finanziario

ai sensi dell'art. 3, c. 10, D.Lgs. 254/2016 e dell'art. 5 Regolamento CONSOB adottato con delibera n. 20267 del gennaio 2018

Sesa SpA

Esercizio chiuso al 30 aprile 2021



Welcome to Essity

We are a global hygiene and health company that improves people's well-being through leading hygiene and health solutions.

Essity is listed on Nasdaq Stockholm.

Essity’s strengths

Long-term value creation through profitable growth

- Improves well-being through leading hygiene and health solutions
- Favorable market trends
- Increases customer and consumer benefits through successful innovations
- Strong market positions and brands
- Digital transformation and strong growth in e-commerce
- Expansion in emerging markets
- Focus on efficiency improvements and cost savings
- Clear category and portfolio strategy
- Strives toward a sustainable and circular society
- High-performing organization with a winning culture

2020 in figures

Sales in approximately
150 countries

Employees, approx.
46,000

Market capitalization,
December 31, 2020
186 SEKbn

Net sales
121,752 SEKm

Organic net sales[1)]
–1.9%

Operating cash flow
16,018 SEKm

Adjusted EBITA[2)]
17,626 SEKm

Adjusted EBITA margin[2)]
14.5%

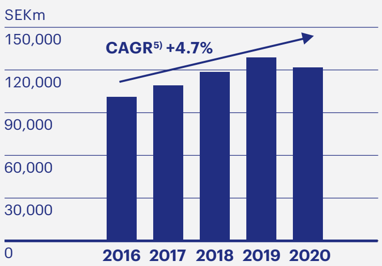
Adjusted return on capital employed[2)]
15.7%

Adjusted earnings per share[3)]
15.45 SEK

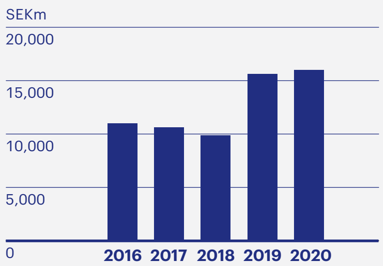
Earnings per share
14.56 SEK

Proposed dividend per share[4)]
6.75 SEK

Net sales

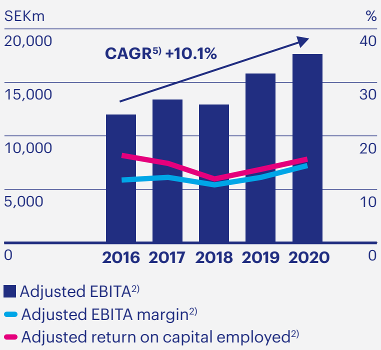


Operating cash flow

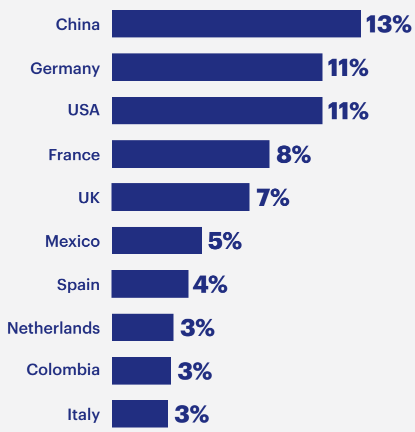


Net sales by business area

Earnings trend



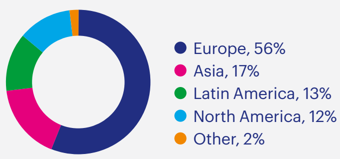
The Group's largest markets, % of net sales



Net sales by distribution channel

E-commerce sales accounted for 13% of net sales.

Net sales by region



1) Net sales excluding exchange rate effects, acquisitions and divestments.
2) Excluding items affecting comparability.
3) Excluding items affecting comparability and amortization of acquisition-related intangible assets.
4) Board of Directors' dividend proposal.
5) Compound Annual Growth Rate.

2020 at a glance
Key events

Progress in hygiene and health, innovation, e-commerce, digitalization and sustainability strengthens Essity for the future.

COVID-19 pandemic
The COVID-19 pandemic has had a major impact on people and the global economy. Essity has had three overall priorities during the pandemic: care for our people, contribute to society and secure business success. Essity has worked to promote a better global hygiene and health standard by safeguarding production and deliveries and continuing to develop customer and consumer offerings. For example, we invested in production of face masks and increased hand sanitizer delivery capacity. We support the WHO COVID-19 Solidarity Response Fund and several local initiatives. Our business areas were impacted both negatively and positively. For Professional Hygiene and Personal Care, the lockdowns and restrictions led to a temporary decrease in demand. Demand for Consumer Tissue, however, was positively impacted by the fact that consumers were spending more time at home. Greater awareness of the importance of hygiene and health is positive for Essity.

Higher market shares and increased e-commerce
Essity has gained market shares in many markets due to high delivery reliability and successful product launches, in addition to increased activity and a strengthened presence in digital sales channels. The Group's e-commerce sales increased to approximately SEK 15bn, corresponding to about 13% of net sales.

Innovations for improved quality of life and reduced environmental impact
During the year, Essity launched several innovations that strengthened its customer and consumer offering, improved its product mix and reduced its environmental impact. Examples include the launch of washable absorbent underwear under the SABA and Nosotras brands, TENA SmartCare, which is a digital solution for continence care, and face masks under the Colhogar, Lotus, Tempo, Zewa and Tork brands.

Two acquisitions and one divestment
Essity acquired 75% of the Swedish medical solutions company ABIGO Medical AB. The company develops, manufactures and markets products including the Sorbact® technology for advanced wound care. ABIGO Medical as a whole is valued at SEK 900m on a debt-free basis. We also strengthened our continence care offering through the acquisition of Novioscan, which develops smart ultrasound technology for monitoring the bladder. The purchase price was approximately SEK 70m on a debt-free basis.

Essity divested its 49% stake in the company Sancella Tunisia, which offers a range of Essity's products and brands in Tunisia, Algeria, Morocco and Libya. Essity will retain a presence in these markets through license and distribution agreements.


In 2020, Essity commenced production of and began offering face masks.

In Feminine Care, Essity launched washable absorbent underwear, offering the user a more sustainable alternative to disposable products.

Raised target for adjusted return on capital employed to above 17% by 2025

The target for adjusted return on capital employed was raised to above 17% by 2025. The previous target was above 15% and was achieved in 2020. 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.

Acceleration of Essity's digital transformation

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 about 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.

Manufacturing Roadmap launched

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 encompasses 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.

Inclusion in Dow Jones Sustainability Index and in CDP's A List

Essity was included in the Dow Jones Sustainability Europe Index, one of the world's most prestigious sustainability indexes, in the Household Products category. Furthermore, Essity was recognized for its leadership in corporate sustainability by global environmental non-profit CDP, securing a place on its prestigious 'A List' for the company's action to tackle deforestation and to source more sustainable commodities.

One of the world's most sustainable companies

Essity has been recognized as one of the world's 100 most sustainable companies by Corporate Knights. The list was announced in conjunction with the World Economic Forum Annual Meeting. Corporate Knights has analyzed and compared 8,080 companies with a minimum gross revenue of USD 1bn against global industry peers.

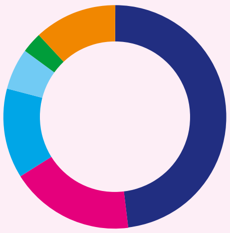
Convening partner to the annual United Nations Foundation's Global Dialogue

In 2020, Essity was once again 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 compiled in collaboration with UN body Water Supply and Sanitation Collaborative Council (WSSCC). In addition to a speech from Essity's President, a representative from Essity's Health and Medical Solutions business unit spoke about anti-microbial resistance.

Tork EasyCube® enables data-driven cleaning.

TENA SmartCare – The more we connect, the better we care.

Ownership by country



Source: Euroclear, December 31, 2020

Shareholder structure

Holding	No. of share-holders	No. of shares	Capital (%)	Votes (%)
1–1,000	92,514	20,514,487	2.9	3.3
1,001–10,000	14,699	39,647,644	5.7	6.3
10,001–20,000	700	9,908,761	1.4	1.4
20,001–	943	632,271,597	90.0	89.1
Total	**108,856**	**702,342,489**	**100.0**	**100.0**

Source: Euroclear, December 31, 2020

Share distribution

	Class A	Class B	Total
Number of registered shares	61,735,172	640,607,317	702,342,489

In 2020, 2,199,470 Class A shares were converted to Class B shares at the request of shareholders. The total number of votes in the company subsequently amounted to 1,257,959,037.
Source: Euroclear, December 31, 2020

Ticker names

Nasdaq Stockholm	ESSITY A, ESSITY B
Bloomberg	ESSITYA:SS, ESSITYB:SS
REUTERS	ESSITYa.ST, ESSITYb.ST

Essity's largest shareholders

At December 31, 2020, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights:

Shareholders	Votes (%)	Holding (%)
AB Industrivärden	29.3	9.8
AMF Insurance and Funds	7.3	4.4
Norges Bank Investment Management	6.8	4.0
MFS Investment Management	2.7	5.0
Swedbank Robur Funds	2.1	3.7
Skandia	1.8	0.7
SEB Investment Management	1.3	2.4
Handelsbanken Fonder	1.2	2.1
Nordea Investment Funds	1.0	1.8
SCA AB's and Essity Aktiebolag's (publ) Employee foundations	0.8	0.1
Other owners	45.7	66.0
Total	**100.0**	**100.0**

Essity Aktiebolag (publ) holds no treasury shares.
Source: Euroclear, December 31, 2020

Data per share

All performance measures include items affecting comparability unless otherwise stated.

SEK per share unless otherwise indicated	2020	2019
Earnings per share before and after dilution	14.56	13.12
Adjusted earnings per share[1]	15.45	14.69
Average price during the year	294.35	278.28
Closing price, December 31	264.50	301.80
Cash flow from current operations[2]	15.91	18.81
Cash flow from operating activities	25.37	27.55
Dividend	6.75[3]	6.25
Dividend yield, %	2.6	2.1
P/E ratio[4]	18	23
P/E ratio, excluding items affecting comparability[4]	17	21
Price/EBITA[5]	13	17
Price/EBITA, excluding items affecting comparability[5]	13	17
Beta coefficient[6]	0.46	0.35
Pay-out ratio, %	46	48
Equity	90	89
Number of registered shares, December 31 (millions)	702.3	702.3

[1] Excluding items affecting comparability and amortization of acquisition-related intangible assets.
[2] See definitions of key figures in Note A2, pages 71–76.
[3] Board of Directors' dividend proposal.
[4] Share price at year-end divided by earnings per share.
[5] Market capitalization plus net debt plus non-controlling interests divided by EBITA. (EBITA = operating profit before amortization of acquisition-related intangible assets).
[6] Share price volatility compared with the entire stock exchange.

Share capital development

The table below shows the development of the company's share capital since 2017.

Year	Event	Change in number of Class A shares	Change in number of Class B shares	Total number of Class A shares	Total number of Class B shares	Total number of shares	Change in share capital, SEK	Total share capital, SEK	Quotient value, SEK
2017	Bonus issue[1]	64,589,523	637,747,966	64,594,523	637,747,966	702,342,489	2,349,866,980	2,350,366,980	3.35
2017	Conversion	–454,085	454,085	64,140,438	638,202,051	702,342,489	–	2,350,366,980	3.35
2018	Conversion	–147,667	147,667	63,992,771	638,349,718	702,342,489	–	2,350,366,980	3.35
2019	Conversion	–58,129	58,129	63,934,642	638,407,847	702,342,489	–	2,350,366,980	3.35
2020	Conversion	–2,199,470	2,199,470	61,735,172	640,607,317	702,342,489	–	2,350,366,980	3.35

[1] At the Annual General Meeting, held on April 5, 2017, shareholders resolved on a bonus issue. The purpose of the bonus issue was to increase the share capital and number of shares so they would correspond to the number of shares in SCA ahead of SCA's distribution of Essity.

Examples of sustainability indexes and awards:

Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA

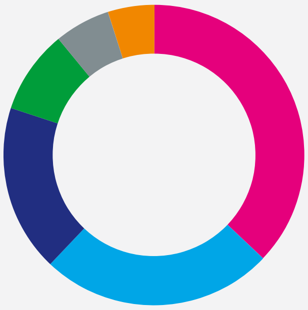
FTSE4Good

MSCI AAA

Global market by region

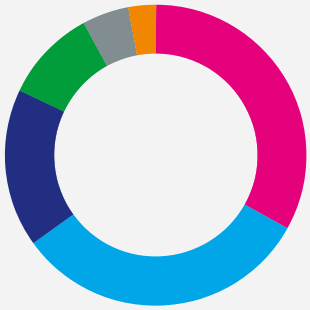
In 2020, the hygiene and health market in mature markets amounted to approximately SEK 660bn and in emerging markets to approximately SEK 580bn.

Personal Care



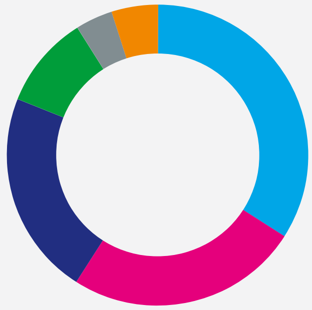
- Asia, 37%
- North America, 25%
- Western Europe, 18%
- Latin America, 9%
- Eastern Europe, 6%
- Other, 5%

Consumer Tissue



- Asia, 33%
- North America, 32%
- Western Europe, 17%
- Latin America, 10%
- Eastern Europe, 5%
- Other, 3%

Professional Hygiene

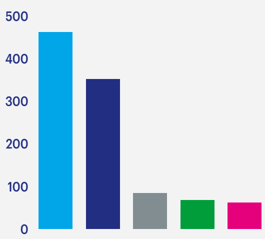


- North America, 34%
- Asia, 25%
- Western Europe, 22%
- Latin America, 10%
- Eastern Europe, 4%
- Other, 5%

Use

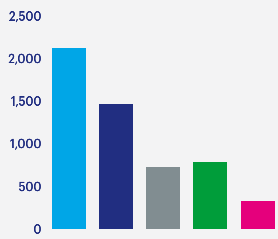
Incontinence Products

Number per person with incontinence/year



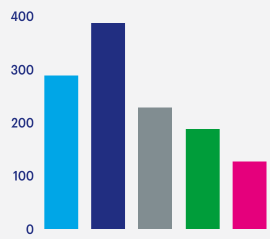
Baby Care

Number per child up to the age of 2.5/year



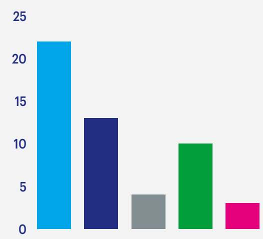
Feminine Care

Number per woman aged 10–54 years/year



Tissue

Kg per capita/year



North America Western Europe Eastern Europe Latin America Asia

Growth potential in different regions

The growth potential is greatest in emerging markets where market penetration of hygiene and health products is significantly lower than in mature markets and where urbanization, infrastructure, retail trade, e-commerce and health care are evolving rapidly. One example of the lower market penetration in emerging markets is that the consumption rates for incontinence products in Asia are only about one-sixth of those in Western Europe. Another example is that tissue consumption in Eastern Europe is only about one-third of that in Western Europe.

As shown on the map on page 11, market growth is expected to be particularly high in Asia and Latin America where Essity has a rapidly expanding business with many leading market positions.

In mature markets, baby care and feminine care have attained high market penetration. However, market penetration for incontinence products is still relatively low for certain product segments, particularly among men, which Essity believes is due to lack of awareness and the stigma associated with incontinence. An aging population is expected to increase demand for incontinence products and medical solutions.

Essity's market positions

	Global	Europe	North America	Latin America	Asia	
Incontinence Products	1	1	4	1	3	TENA
Professional Hygiene	1	1	2	4	3	TORK
Consumer Tissue	2	1	–	3	1	Plenty, Tempo, Regio, Zewa, Lotus, Vinda
Medical Solutions	4	1	12	3	2	Leukoplast, Cutimed, JOBST, Actimove, Delta-Cast
Baby Care	5	2	–	6	6	Libero, Lotus Baby, Drypers, Pequeñín
Feminine Care	5	3	–	1	10	Libresse, Bodyform, Nana, Saba, Nosotras

Source: The information has been compiled by Essity for presentation purposes based on statistics taken from external market sources, including IRI, Fastmarkets RISI, Price Hanna Consultants, SmartTRAK and National Macro Economics.

Strengthened market positions and brands

Position #1 or #2

~90% of Essity's branded positions

Higher market shares for

>60% of Essity's branded positions in retail trade

Strategy for profitable growth
and long-term value creation

Vision

Dedicated to improving well-being through leading hygiene and health solutions

Mission

To sustainably develop, produce, market and sell value-added products and services within hygiene and health

Objectives

- Generate increased shareholder value through profitable growth
- Enable more people every day to enjoy a fuller life
- Contribute to a sustainable and circular society
- Enable our employees to realize their full potential, as part of one winning team

Strategies

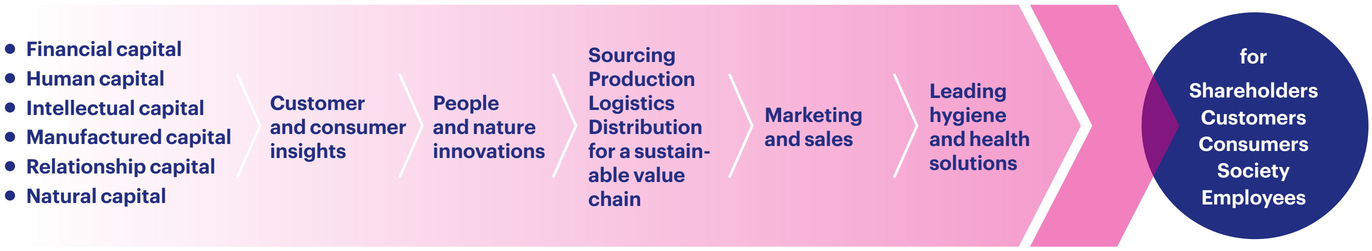
- Take the lead in every market and channel
- Digitalize
- Win with customers and consumers
- Innovate leading brands
- Drive efficiency

Clear strategy for increased value creation

Through the vision: Dedicated to improving well-being through leading hygiene and health solutions, Essity strives to achieve long-term value creation for shareholders, customers, consumers, society and employees. Essity's mission is to sustainably develop, produce, market and sell value-added products and services within hygiene and health. Through innovation, digitalization, leading market positions and a greater presence in the fastest-growing sales channels, as well as world-class service levels, quality and efficiency, Essity creates added value for customers and consumers. Our strategy and operations are based on a sustainable business model aimed at achieving profitable growth and responsible value creation, all of which is centered around our customers and consumers.

Business model

Resources **Value creation**



Business model focused on sustainable growth and responsible value creation

Resources
Essity utilizes resources in the form of financial capital, where equity amounted to approximately SEK 63bn and net debt approximately SEK 43bn in 2020. Human capital with approximately 46,000 employees and their expertise, skills and experience. Intellectual capital such as research and development, patents, licenses, innovation, systems and goodwill. Manufactured capital in the form of raw materials, facilities and infrastructure necessary for production. Relationship capital that includes Essity's relationship with internal and external stakeholders with whom we share values, credibility and loyalty. Natural capital used by Essity in its operations, such as forest and water.

Customer and consumer insights
The starting point for Essity's operations is customer and consumer insights. Through knowledge about people's daily needs and challenges, we create an offering that improves quality of life for people every day.

Innovation
Essity has a global unit that works with brands, innovation and sustainability. There are also innovation centers in China, France, Germany, Mexico, Sweden, and the US. Research and development (R&D) costs during the year amounted to SEK 1,559m, corresponding to about 1.3% of consolidated net sales.

Sourcing, production, logistics and distribution
In 2020, Essity purchased raw materials and consumables for approximately SEK 41bn. The main raw materials are pulp, recovered fiber and oil-based materials. Essity has around 90 production facilities worldwide. Cost of goods sold amounted to SEK 82bn, of which transport and distribution costs were SEK 11bn.

Marketing and sales
Essity's marketing costs in 2020 amounted to SEK 6,745m, corresponding to 5.5% of net sales. An increasing share of marketing is conducted through digital channels. We have sales in approximately 150 countries. In 2020, the retail trade accounted for 61% of Essity's net sales, business-to-business for 21% and the healthcare sector for 18%.

Leading hygiene and health solutions
Essity is the global market leader in incontinence products with the TENA brand and in professional hygiene with the Tork brand. Essity also has strong brands in other product categories. Essity holds the number one or number two position within at least one product category in approximately 90 countries and has a well-developed and efficient "go-to-market" model.

Value creation for our stakeholders
Essity generates value to shareholders through returns and dividends. We work to maximize shareholder value while prioritizing environmental and social issues by taking financial, environmental and social parameters into consideration in our business decisions. Customer and consumer value is created through our solutions by increasing well-being and quality of life. Value is also created for employees, suppliers and society through, for example, salaries, revenue, employment and taxes, as well as sustainability activities and community relations.

In Essity's strategy work, the external environment and markets are analyzed as a means of identifying external trends, drivers, opportunities and risks. Part of the basis for Essity's strategy work is a materiality analysis where Essity and the company's stakeholders rank the issues and areas that are perceived as being important for the company. Read more about the results of the 2020 materiality analysis on page 51. The annual strategy process includes an analysis phase and assessment of the risks present in the business units. The company's most material climate-related risks and opportunities have also been identified and assessed.

A description of the risks that impact Essity and related measures are presented on pages 36–43.

Take the lead
in every market and channel

Essity aims to hold a number one or number two position in the markets, channels and categories we choose to participate in. We over-invest in the fastest growing customer, category and channel segments to take the lead in attractive markets and generate profitable growth. Essity has sales in approximately 150 countries. In approximately 90 of these, Essity holds the number one or two position in at least one product category.

Leading market positions
Holding a number one or number two position offers economies of scale for example in sourcing, production, distribution and marketing. Moreover, Essity's negotiating position is stronger when we have a brand and product that is demanded by customers and consumers. For some time, Essity has invested in e-commerce with the ambition to have a higher online market share compared with offline. This favored the company in 2020 since more consumers chose e-commerce. E-commerce sales increased from 10% of net sales in 2019 to 13% in 2020. The rise in e-commerce also increased sales of Essity's strong brands as consumers are more likely to choose brands they recognize and trust when buying online.

Attractive emerging markets
Essity has a clear priority for which geographic markets it wants to operate in, and which product categories it will offer in these markets. We aim to increase the emerging markets' share of net sales and earnings, since the potential for growth is higher in emerging markets because of lower market penetration for hygiene and health products compared with mature markets. We are prioritizing growth in selected emerging markets such as China, Southeast Asia, Latin America, Eastern Europe and Russia, where we already have strong market positions. In 2020, the adjusted EBITA margin for emerging markets was 12.9%, which is an improvement of 6.4 percentage points compared with 2015. Emerging markets increased to 37% of net sales in 2020.

Expanding the offering
To grow our product categories and strengthen market positions, we are improving and expanding our offerings through adjacencies. We achieve this organically through innovations and collaborations and through acquisitions of technology and product offerings. Today, Essity's offering includes wet wipes, skincare products and soap in several product categories. Expanding the customer offering is also about providing service and solutions to customers and consumers and developing digital solutions and sustainable business models that increase our customers' efficiency and reduce environmental impact. For example, in 2020 we strengthened our continence care offering through the acquisition of Novioscan, which develops smart ultrasound technology for monitoring the bladder.

Profitable growth
Essity's innovation-driven category and channel strategy with leading brands combined with comprehensive efficiency improvements have contributed to good organic sales growth and a gradual increase in profitability. Net sales increased by SEK 5.6bn annually and adjusted EBITA by SEK 1.4bn annually during the 2014–2020 period. Structural profitability in Consumer Tissue has increased for example due to a higher share of own brands, a focus on growth in segments with high margins, successful innovations and more efficient production. In Baby Care, we exited underperforming positions in North Africa and Russia during the year. Profitability in Baby Care has improved and the ambition is now to grow. The focus in Incontinence Products, Medical Solutions, Feminine Care and Professional Hygiene is on continued growth.

Portfolio strategy

Innovate
leading brands

By continuously improving and expanding our solutions for customers and consumers, we help people around the world live a better life at the same time as we are strengthening our brands and gaining market shares. To launch successful innovations, we get to know our customers, consumers, users, resellers and distributors, often through digital interaction. Our innovation work also aims to reduce resource consumption to launch solutions that contribute to a sustainable and circular society.

Importance of hygiene and health
As a consequence of the COVID-19 pandemic, people are more aware of the importance of hygiene and health for well-being and in reducing the risk of disease. To help people cope with the challenges brought about by the pandemic, Essity has for example expanded its offering with face masks for the retail trade and to customers in the Professional Hygiene business area. In the retail trade, the face masks were launched under the consumer brands Tempo, Lotus, Zewa and Colhogar and in Essity's Professional Hygiene business area under the leading global brand Tork. Essity also increased delivery capacity of hand sanitizer under the Tork brand. The launch of the Household Towel Home Collection is another example of how Essity has further developed its offerings during the year to meet needs as people spend more time at home and, in parallel, want to raise hygiene standards with more wiping, cleaning and fewer textiles.

Reducing environmental impact
In order to continue to grow the company's sales while reducing its environmental impact, Essity is striving to develop new solutions, business models and production methods that contribute to a more sustainable society. We strive to offer sustainable products, packaging and services. The aim is for our packaging to be recyclable and comprise renewable and recycled materials. In 2020, Feminine Care introduced packaging for pads and panty liners made from renewable material for its new brand identity V-zone. The plastic packaging for pads is made from 50% renewable material in the form of responsibly grown sugar cane. One step in our commitment is to provide consumers with better solutions that feature a smaller climate footprint.

In Baby Care and with the Libero brand, we have been working for many years to reduce our climate footprint. For example, Libero was first in the Nordic region with Nordic Swan Ecolabel diapers and FSC® certification. In 2020, we launched baby diapers in packaging made from 50% renewable material. The baby diapers are manufactured using 100% renewable electricity.

Examples of awards in 2020

Win with customers and consumers

Product of the Year France	Product of the Year Germany	Product of the Year Germany	Product of the Year North America
Lotus Pure Natural Handkerchiefs, Facial tissues, Toilet paper	Zewa Smart	Tempo Natural and Soft Tempo Moist for Kids	Tork PeakServe® **Best Innovation North America** Tork Xpressnap Fit®

Virtual campaign

Think ahead.

Tork Clean Hands VR
Interclean Europe Innovation Awards Visitors Choice Award

Marketing awards

Libresse	Bodyform	Libresse	Nana
Drum award Viva la vulva #1 awarded campaign	Immortel Awards #Wombstories	Global SABRE Awards Winner "Liberating our Periods" for Libresse in China	LSA La Conso s'engage Award for social responsibility/diversity

Digitalize

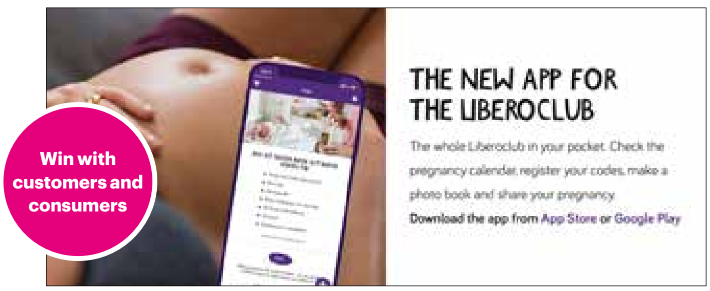
For a number of years, Essity has invested to digitalize sales and distribution to customers and consumers, the supplier and production chain, innovative solutions and internal processes. These investments have benefited Essity, for example, during the COVID-19 pandemic as the infrastructure was already in place to meet the sharp increase in e-commerce, remote working by employees with online meetings and the need for greater digital control of production, distribution and digital services. In 2020, Essity also decided to accelerate digitalization in the company through a new digital platform. This investment will further strengthen the Group's customer and consumer offerings, generate significant cost savings and reduce the need for working capital.

E-commerce

The COVID-19 pandemic has accelerated digitalization and e-commerce has increased sharply. Through its strategy to focus on the fastest growing customer and sales channels, Essity has over-invested in e-commerce over time. Essity therefore has a strong e-commerce platform and during the year it was quick to respond to the retail trade's increased demands for an online presence. During the fourth quarter of 2020, the company's e-commerce sales amounted to approximately 15% of net sales. E-commerce takes place via retailer websites and e-tailers, where our offerings in Consumer Tissue, Incontinence Products, Baby Care and Feminine Care are available. With our leading TENA brand, we have developed our own webshops to help our consumers with information about incontinence and available solutions, and provide an opportunity to order and receive the products delivered home, discretely. In our business-to-business operations of Professional Hygiene, Medical Solutions and parts of Incontinence Products, we were highly active during the year in meeting our customers online, which was appreciated and increased our online sales.

Digital solutions

With the vision: Dedicated to improving well-being through leading hygiene and health solutions, Essity uses new technology and sensors to deliver digital solutions that simplify and improve everyday life for customers and consumers. Incontinence Products has launched "TENA SmartCare Change Indicator". This is a reusable sensor that can easily be attached to the outside of a TENA product and notifies the caregiver via TENA SmartCare Professional Care or the Family Care app when the product needs to be changed. The solution improves and facilitates for users, family and caregivers. For example, it ensures a better night's sleep for the user as the caregiver does not need to unnecessarily check and change an incontinence product. With the acquisition of Novioscan, Essity is further developing the digital innovation SENS-U. This is a wearable ultrasound sensor that measures levels in the bladder and provides the user with a discrete notification when it is time to visit the bathroom. A version is currently available for children and Essity is working to develop this solution for adults, to simplify and improve life for more people.



Closer to customers and consumers

Our brands' websites, social media channels and search functions provide us with an insight into the questions and problems of current and potential customers and consumers and also what they appreciate. This enables our innovation and marketing teams to develop solutions, campaigns and selling techniques based on a unique knowledge and insight into the needs, challenges and expectations of our customers and consumers. Our digital solutions also provide us with data about use patterns and consumption. Our connected dispensers featuring sensor technology, Tork EasyCube®, show a sharp increase in consumption per person of paper hand towels, soap and hand sanitizer during the COVID-19 pandemic. We use this information together with our customers to optimize future solutions.

We reach most of our customers and consumers through digital media. This allows us to maximize the value of campaigns and ensures that we reach the intended target audience. One example is the "Liberating our Periods" marketing campaign for the relaunch of Libresse in China. It targeted young women at the start of their professional career and aims to break barriers and begin talking openly about menstruation. The campaign was named the 2020 Global SABRE Awards Winner. Other examples of successful multimedia marketing are TENA #Ageless and #WoundWarriors for the brands Cutimed® and Leukomed®.

Automation and advanced analytics

The smart use of digital tools in Essity's production, distribution, logistics and administration leads to increased automation and robotization. Through "Industry 4.0" and the development of smart production facilities, Essity is working to achieve more efficient production, shorter lead times, higher quality and lower environmental impact. Increasing amounts of data available from production enables advanced digital analytics which, for example, improves control of production flows and maintenance planning. Essity is investing in improving the digital knowledge of employees. Our various digitalization teams are coordinated by the company's global experts to implement the best digitalization trends.

New digital platform

Essity is investing in a new digital platform to accelerate its digital transformation and benefit more fully from the digital initiatives taken at the company. The investment will improve Essity's offering and service to customers and consumers and is expected to have a positive impact on sales. The investment will also provide efficiency enhancements, which are expected to generate cost savings.

Drive efficiency

Essity works continuously to improve efficiency by increasing productivity, reducing material, energy and logistics costs and minimizing waste. In parallel, we enable rapid adjustments for innovations, product adaptations and the best service to customers and consumers. This strengthens our competitiveness, enhances our financial performance and reduces our environmental impact. We are working to leverage digitalization, innovation, global economies of scale and knowledge sharing to increase efficiency in the production and supply chain as well as logistics and distribution.

Zero workplace accidents
Health and safety is a top priority at Essity and we are striving for a safe workplace without accidents. In 2014, Essity set the target to reduce the accident frequency rate by 50% by 2020. Solid work has been done that has improved work procedures and machinery safety. In 2020, the accident frequency rate had fallen by 56%.

Production assured during the COVID-19 pandemic
Care for our people is a priority during the COVID-19 pandemic. Our hygiene and health solutions are critical to society and we were successful in assuring both production and logistics in 2020. We quickly established a global emergency response team comprising internal and external experts to guarantee a safe work environment for our employees. Measures were implemented in all parts of the business, including new ways of working, production adaptations and securing transportation.

Cost savings and increased efficiency
During 2020, Essity achieved SEK 1,056m in continuous cost savings. These include savings in sourcing, production and material rationalization. The Manufacturing Roadmap program was launched during the year to achieve world-class cost efficiency, quality and service levels at Essity's approximately 60 wholly owned facilities. The program also includes logistics and distribution and contributes to Essity's sustainability target relating to the reduction of carbon emissions in line with the Science Based Targets initiative. Digitalization enables more efficient processes in administration as well as sourcing, production and logistics. Digital solutions are implemented in operations, including self-regulating processes, smart sensors, data analyses, robotization and automation.

Sustainable value chain
Essity has three focus areas to achieve a world-class sustainable value chain: reduce the use of fossil fuels and electricity, improve product design and optimize resource utilization. By investing in state-of-the-art technology, process efficiency is improved and carbon emissions are reduced. Essity researches and invests in several ground-breaking ideas in sustainable technology in its manufacturing processes with the aim of reducing the company's environmental footprint and setting new standards for the entire industry. For example, in 2021 Essity will start up an innovative, unique and ground-breaking pulp production from alternative fiber at its facility in Mannheim, Germany. The plant will produce high-quality pulp from wheat straw that will reduce carbon emissions, use less water and energy as well as fewer chemicals.

We strive to achieve world-class cost efficiency, quality and service levels.

Objectives

Generate increased shareholder value through profitable growth

Essity focuses on profitable growth in order to generate long-term value for our shareholders. The goal for annual organic sales growth is above 3%. In 2020, the earlier target for adjusted return on capital employed was achieved and the target was raised to above 17% by 2025. In line with Essity's dividend policy, we aim to provide long-term stable and rising dividends to our shareholders. Essity's target is to have an effective capital structure and maintain a solid investment grade rating.

Enable more people every day to enjoy a fuller life

Essity aims to enable more people every day to enjoy a fuller life by raising hygiene and health standards around the world. To succeed, we are constantly striving to further develop and improve our offering and provide more people access to our solutions. We are working intensively to break barriers surrounding hygiene and health that exist in our society. We do this through training courses and collaborations, and through marketing and providing information.

Contribute to a sustainable and circular society

Essity strives to reduce resource consumption and toward efficient recycling or composting of our hygiene and health products. We are working to develop offerings and business models that contribute to a sustainable and circular society, which also creates new business opportunities for Essity. Essity's targets for carbon emission reductions are approved by the Science Based Targets initiative. We are striving for 100% recyclability of our packaging. Our target for sourcing of fresh fiber means all wood-based fresh fiber in our products and packaging is to be FSC® or PEFC™ certified.

Enable our employees to realize their full potential, as part of one winning team

Our employees are our main asset and we strive continuously to develop our corporate culture, expertise and leadership to create the best possible conditions for a successful Essity. All Essity employees are to be treated fairly and respectfully. We value and work to increase diversity. We offer career opportunities in a leading global hygiene and health company that is breaking barriers to well-being in the world.

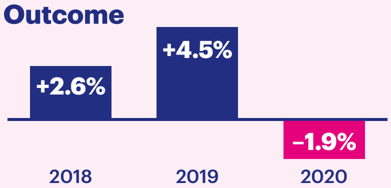
Targets
and outcomes

Annual organic sales growth[1)]

Target

>3%

Outcome



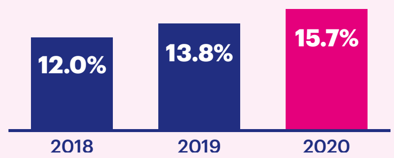
Adjusted return on capital employed[2)]

Target

>17% by 2025

The earlier target of >15% was achieved in 2020 and the target was raised to >17% by 2025

Outcome



Capital Structure Policy

Target

Maintain a solid investment grade rating

Outcome 2020

Solid investment grade rating

Dividend Policy

Target

Long-term stable and rising dividends

Outcome 2020

6.75
SEK per share[3)]

+8%
compared with earlier dividend

Science Based Targets

Target 2030 (compared with 2016)

Scope 1 and 2	Scope 3
–25%	–18%

Outcome 2020

Scope 1 and 2	Scope 3[4)]
–11%	–4%

Packaging

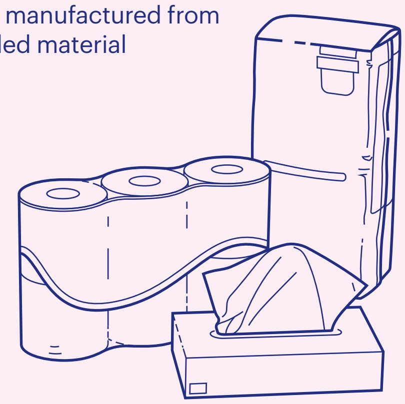
Share of packaging manufactured from renewable or recycled material

Target 2025

85%

Outcome 2020

77%



[1)] Net sales excluding exchange rate effects, acquisitions and divestments.
[2)] Excluding items affecting comparability.
[3)] Board of Directors' dividend proposal.
[4)] Outcome for Scope 3 is for 2019.

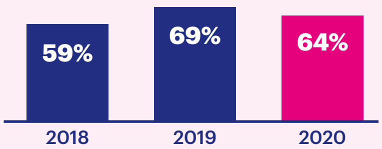
Innovation

Share of innovations that yielded social and/or environmental improvements

Target

>33%

Outcome



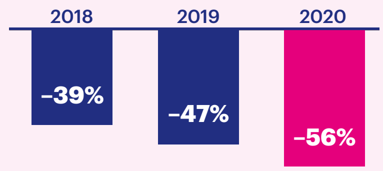
Health and safety

Decrease in accident frequency rate (compared with 2014)

Target 2020

–50%

Outcome



Sourcing

From suppliers who comply with Essity's Global Supplier Standard

Target 2020

100%

Outcome 2020

92%

Production waste

Subject to material or energy recovery

Target 2030

100%

Outcome 2020

65%

Fresh fiber

Share of FSC® or PEFC™ certified fresh fiber

Target

100%

Outcome 2020

95%

Business ethics and Code of Conduct

Share of new employees who received training in the Code of Conduct

Target

100%

Outcome 2020

92%

Water

Our tissue sites are to reduce: (compared with 2014)

	Target 2020	Outcome 2020
Levels of suspended solids	–10%	–27%
Water usage	–10%	–3%
Organic waste (BOD)	–10%	–21%

Read more about our sustainability targets and outcomes for 2020, 2019 and 2018 including comments in Sustainability governance, on pages 44–50 and in the Group's non-financial notes on pages 119–127.

Business area

Personal Care

Offering

Essity's offering includes Incontinence Products, Medical Solutions, Baby Care and Feminine Care. Products are sold under brands such as TENA, JOBST, Leukoplast, Libero, Libresse, Nosotras and Saba, and as retailer brands.

In Incontinence Products, with the globally leading brand TENA, Essity offers a broad range of incontinence products that also includes skincare products, wet wipes, wash gloves and digital solutions with sensor technology. In Baby Care, Essity offers open baby diapers and pant diapers as well as baby care products such as wet wipes, shampoo, lotion and baby oil. In Europe, Essity offers baby diapers under its own Libero and Lotus brands and as retailer brands. In Feminine Care, Essity offers a broad product portfolio that includes pads, panty liners, tampons, intimate soaps, intimate wipes and washable absorbent underwear. In Medical Solutions, Essity offers products and services in wound care, compression therapy and orthopedics.

Distribution channels are the retail trade, pharmacies, medical device stores, hospitals, distributors and care institutions and e-commerce.

Market positions

Essity is the global market leader in the market for incontinence products with the TENA brand, holding a global market share that is nearly twice the size of the second largest player. Essity is the market leader in Europe, Asia (excluding Japan) and Latin America. Essity is the third largest player in Asia (including Japan) and the fourth largest in North America.

In Baby Care, Essity is the world's fifth largest player and the second largest in Europe. Essity's strongest market is the Nordic region, where the Libero brand is the market leader. Examples of other strong regional brands are Drypers in South East Asia and Pequeñin in South America.

In Feminine Care, Essity is the world's fifth largest player, the third largest in Europe and the market leader in Latin America. Examples of regional brands supported by Essity's global brand platform in Feminine Care include Libresse in the Nordic region, Russia, Eastern Europe, the Netherlands, Malaysia and China, Bodyform in the UK, Nana in France and the Middle East, and Saba and Nosotras in Latin America.

In Medical Solutions, in the product categories in which the company is active, Essity is the world's fourth largest player and the market leader in Europe. Essity is the largest global player in compression therapy and the third largest player in orthopedics. In wound care, which includes acute and advanced wound care, Essity is the fifth largest player. Essity holds the number three position within acute wound care. Examples of strong brands include JOBST, Leukoplast, Cutimed, Delta-Cast and Actimove.

Production facilities

At the end of 2020, Personal Care had production at 35 sites in 25 countries.

Operations in 2020

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.

Sales were negatively impacted by the COVID-19 pandemic as demand was temporarily negatively impacted by lockdowns and restrictions 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 2.7%. 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).

Brands

TENA Leukoplast Cutimed® JOBST Actimove Delta-Cast Libero Lotus Drypers Pequenin Libresse Bodyform Nana Saba Nosotras

With the launch of TENA Silhouette Noir, TENA is the first brand in the world to offer a range of black liners, pads and absorbent single-use underwear that is incredibly discreet.

Key figures

Net sales

46,095 SEKm

Organic net sales[1]

0.0%

Adjusted gross margin[2]

41.4%

Adjusted EBITA[2]

7,161 SEKm

Adjusted EBITA margin[2]

15.5%

Adjusted return on capital employed[2]

16.4%

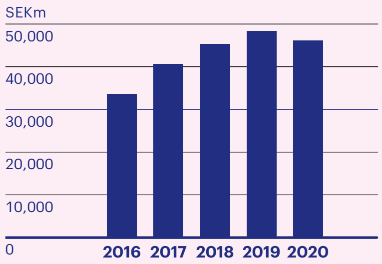
Emerging markets' share of business area's net sales

36%

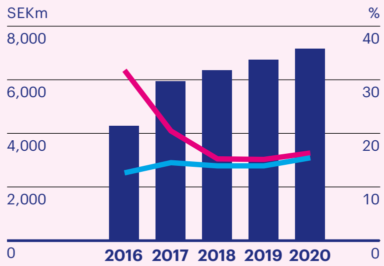
Organic net sales[1] in emerging markets

+2.7%

Net sales

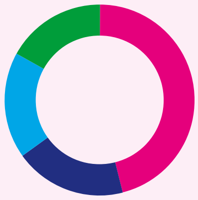


Earnings trend



- Adjusted EBITA[2]
- Adjusted EBITA margin[2]
- Adjusted return on capital employed[2]

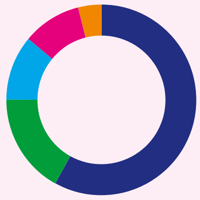
Net sales by product category



- Incontinence Products, 46%
- Baby Care, 19%
- Medical Solutions, 18%
- Feminine Care, 17%

For Personal Care, 10% of total net sales were related to retailer brands. For Incontinence Products: 1%, Baby Care: 43%, Feminine Care: 6%, Medical Solutions: 0%.

Net sales by region



- Europe, 58%
- Latin America, 17%
- North America, 11%
- Asia, 10%
- Other, 4%

SEKm	2020	2019	%
Net sales	46,095	48,340	–5
Organic net sales[1], %	0.0	+3.4	
Adjusted gross margin[2], %	41.4	39.4	
Adjusted EBITA[2]	7,161	6,746	+6
Adjusted EBITA margin[2], %	15.5	14.0	
Adjusted return on capital employed[2], %	16.4	15.2	
Operating cash flow	7,485	6,495	+15
Investments in non-current assets	–1,658	–1,866	–11
Average number of employees	18,298	17,167	+7

[1] Net sales excluding exchange rate effects, acquisitions and divestments.
[2] Excluding items affecting comparability.

Essity is a leading global player in personal care

Business area

Consumer Tissue

Offering
Essity's offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes, napkins and face masks. Products are sold under brands such as Lotus, Regio, Tempo, Vinda and Zewa. In Europe, Essity also sells products under retailer brands. Distribution channels for the products are the retail trade and e-commerce.

Market positions
Essity is the world's second largest supplier of consumer tissue. Essity's brand portfolio comprises many strong brands.

In Europe, Essity is the market leader and holds a market share that is more than twice the size of the second largest player. Lotus, Tempo and Zewa are the leading brands in, for example, France, Germany and Russia. Cushelle and Plenty are strong brands in the UK and Ireland. Essity is the market leader in China and Asia through its majority shareholding in Vinda. Vinda is the leading brand in China. In Latin America, Essity is the market leader in Colombia and holds the number two position in Mexico. Familia and Regio are leading brands in Colombia and Mexico, respectively.

Production facilities
At the end of 2020, Consumer Tissue had production at 44 sites in 18 countries.

Operations in 2020
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).

Essity is the world's second largest supplier of consumer tissue

Brands

With the launch of "Pure Natural" for the Lotus, Zewa, Tempo and Colhogar brands, Essity offers toilet paper, handkerchiefs and facial tissues with an extra soft quality that are free from allergens[1], dyes and added fragrances. The tissue is manufactured from certified fiber, of which about 30% of the fiber is unbleached. The plastic packaging is recyclable and 30% of the plastic is made from recycled plastic.

[1] 26 EU regulated allergens.

Key figures

Net sales

50,221 SEKm

Organic net sales[1]

+4.1%

Adjusted gross margin[2]

27.2%

Adjusted EBITA[2]

8,045 SEKm

Adjusted EBITA margin[2]

16.0%

Adjusted return on capital employed[2]

17.3%

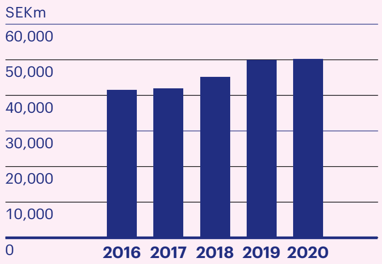
Emerging markets' share of business area's net sales

47%

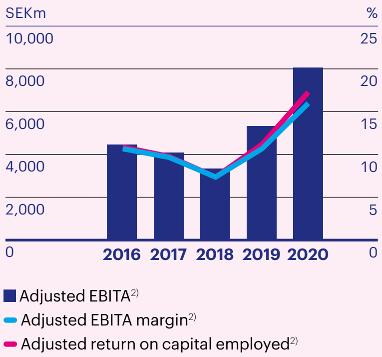
Organic net sales[1] in emerging markets

+6.9%

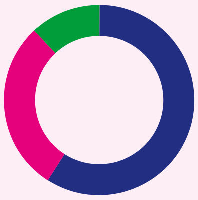
Net sales



Earnings trend



Net sales by region



For Consumer Tissue, 32% of total net sales was related to retailer brands.

SEKm	2020	2019	%
Net sales	50,221	49,904	+1
Organic net sales[1], %	+4.1	+6.1	
Adjusted gross margin[2], %	27.2	21.7	
Adjusted EBITA[2]	8,045	5,321	+51
Adjusted EBITA margin[2], %	16.0	10.7	
Adjusted return on capital employed[2], %	17.3	11.2	
Operating cash flow	6,455	4,870	+33
Investments in non-current assets	–3,191	–2,239	+43
Average number of employees	20,878	21,526	–3

1) Net sales excluding exchange rate effects, acquisitions and divestments.
2) Excluding items affecting comparability.

Business area

Professional Hygiene

Offering
Essity's offering comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, face masks, and service and maintenance. Essity also offers digital solutions, such as Internet of Things sensor technology that enables data-driven cleaning.

Customers consist of companies and office buildings, universities, healthcare facilities, industries, restaurants, hotels, stadiums and other public venues. Distribution channels for the products consist of distributors and e-commerce.

Market positions
Essity is the world's largest supplier of products and services in the market for professional hygiene with the globally leading Tork brand. We are the market leader in Europe and hold a market share that is more than twice the size of the second largest player. Essity is the second largest supplier in North America and holds a particularly strong market position in the food service segment, where we estimate that the company supplies approximately every second napkin. Essity also has strong positions in emerging markets, such as Russia and Colombia, where we are the market leader. Essity is number three in the market in Asia through its majority shareholding in Vinda.

Production facilities
At the end of 2020, Professional Hygiene had production at 43 sites in 20 countries.

Operations in 2020
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 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 16.7%. 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).

Essity is the leading global player in professional hygiene

Brands

TORK
Think ahead.

Essity and our Tork brand have worked for many years to raise awareness of the importance of good hand hygiene to avoid the spread of disease using products such as paper hand towels, soap and hand sanitizer. During the COVID-19 pandemic, Essity has worked to ensure a better global hygiene and health standard by safeguarding production and deliveries and continuing to develop customer offerings. For example, we increased delivery capacity of hand sanitizer and launched several new hand sanitizer products to meet the increase in demand.

Key figures

Net sales

25,418 SEKm

Organic net sales[1]

–14.6%

Adjusted gross margin[2]

26.9%

Adjusted EBITA[2]

3,317 SEKm

Adjusted EBITA margin[2]

13.0%

Adjusted return on capital employed[2]

14.6%

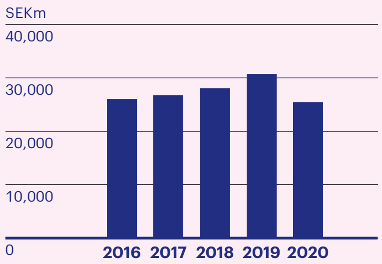
Emerging markets' share of business area's net sales

20%

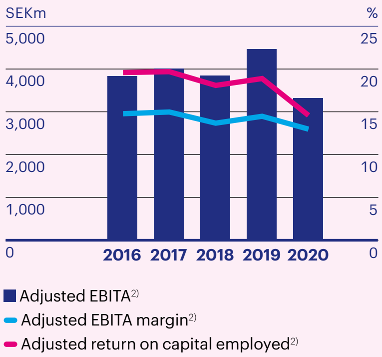
Organic net sales[1] in emerging markets

–13.8%

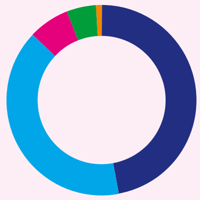
Net sales



Earnings trend



Net sales by region



SEKm	2020	2019	%
Net sales	25,418	30,731	–17
Organic net sales[1], %	–14.6	+3.6	
Adjusted gross margin[2], %	26.9	26.8	
Adjusted EBITA[2]	3,317	4,463	–26
Adjusted EBITA margin[2], %	13.0	14.5	
Adjusted return on capital employed[2], %	14.6	18.9	
Operating cash flow	3,183	4,938	–36
Investments in non-current assets	–1,135	–1,402	–19
Average number of employees	6,909	7,287	–5

1) Net sales excluding exchange rate effects, acquisitions and divestments.
2) Excluding items affecting comparability.

The Tork PeakServe family is growing and is now available as standard and mini dispensers and as adapters for recessed towel cabinets. This enables customers to increase efficiency by using the same paper hand towel refill across the entire facility.

Acquisitions, investments and divestments

Essity acquires 75% of ABIGO Medical AB
On February 27, 2020, Essity announced that the company had signed an agreement to acquire 75% of the Swedish medical solutions company ABIGO Medical AB. The company as a whole is valued at SEK 900m on a debt-free basis. ABIGO Medical AB develops, manufactures and markets products including the Sorbact® technology, which is a clinically established innovation for advanced wound care. The company has about 170 employees and reported net sales of approximately SEK 403m in 2019. ABIGO Medical AB was a key partner and sub-supplier to Essity. The transaction, which was subject to customary regulatory approvals, was finalized on April 30, 2020.

Essity acquires 100% of Novioscan B.V.
On April 1, 2020, Essity announced that the company is strengthening its offering in incontinence products through the acquisition of the Dutch company Novioscan. The company develops a wearable ultrasound technology that monitors the bladder and enables continence control. The purchase price is approximately SEK 70m on a debt-free basis.

Essity divests partly owned company in Tunisia
On October 21, 2020, Essity announced that the company is divesting its 49% stake in Sancella Tunisia to the other owner Sotupa. Sancella 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, Sancella Tunisia reported net sales of SEK 575m. The divestment was completed in December 2020 and gave rise to a gain of SEK 29m, which was recognized as an item affecting comparability in the fourth quarter of 2020.

Investment in digital transformation
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.

Other Group information

Parent company
The Group's Parent company, Essity Aktiebolag (publ), is a holding company with the main task of owning and managing shares in a number of business group companies and performing Group-wide management and administrative functions. The company's corporate registration number is 556325-5511 and it is domiciled in Stockholm, Sweden. The company's address is PO Box 200, SE-101 23 Stockholm. In 2020, the Parent company recognized operating income of SEK 265m (209) and profit before appropriations and tax of SEK 2,605m (4,098). Investments in property, plant and equipment totaled SEK 1m (14) during the year. Cash and cash equivalents at year-end amounted to SEK 0m (0).

Research and development (R&D)
Research and development (R&D) costs during the year amounted to SEK –1,559m (–1,485), corresponding to about 1.3% of consolidated net sales. R&D is coordinated and conducted from a global perspective. Product development is carried out in close cooperation with the local units, as well as through direct collaboration with customers.

Holdings of treasury shares
Essity Aktiebolag (publ) holds no treasury shares.

Share distribution
In 2020, 2,199,470 Class A shares were converted to Class B shares. The proportion of Class A shares was 8.8% at year-end.

Dividend
The Board of Directors proposes an increase in the dividend of 8% to SEK 6.75 (6.25) per share or SEK 4,741m (4,390). The record date for entitlement to receive dividends is proposed as March 29, 2021. The Board is of the opinion that the company's and the Group's equity after the proposed dividend is sufficiently high in relation to the nature, scope and risks of the operations, solvency requirements, liquidity and financial position and provides scope for the company and the Group to fulfill its obligations and conduct desirable investments.

Sustainability report
Essity's statutory sustainability report, in accordance with the requirements of the Swedish Annual Accounts Act, can be found on pages 36–51 and 120–127 in the Board of Directors' Report. The company's business model can be found on page 15. This sustainability report for Essity Aktiebolag (publ) encompasses the entire Group. More information on non-financial accounting principles can be found in Note H1, page 119.

Cash flow and financing

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 year 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.

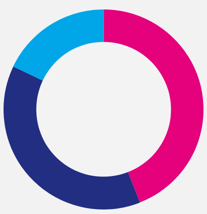
The debt/equity ratio was 0.67 (0.81). Excluding pension liabilities, the debt/equity ratio was 0.63 (0.76). The debt payment capacity was 46% (38). Net debt in relation to adjusted EBITDA amounted to 1.76 (2.25).

The Group's cash flow

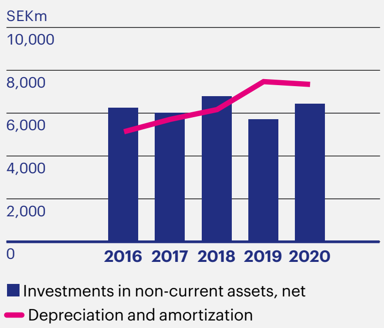
Operating cash flow statement

SEKm	2020	2019	2018
Operating cash surplus	24,653	22,932	18,570
Change in working capital	–810	359	–971
Investments in non-current assets, net	–6,439	–5,707	–6,781
Restructuring costs, etc.	–977	–1,494	–918
Operating cash flow before investments in operating assets through leases	**16,427**	**16,090**	**9,900**
Investments in operating assets through leases	–409	–451	0
Operating cash flow	**16,018**	**15,639**	**9,900**
Financial items	–958	–1,309	–1,157
Income taxes paid	–3,917	–1,130	–2,466
Other	32	8	86
Cash flow from current operations	**11,175**	**13,208**	**6,363**
Acquisitions of Group companies and other operations	–747	–143	–694
Divestments of Group companies and other operations	367	220	68
Cash flow before transactions with shareholders	**10,795**	**13,285**	**5,737**
Private placement to non-controlling interests	64	4	5
Dividend to non-controlling interests	–423	–336	–397
Dividend	–4,390	–4,038	–4,038
Net cash flow	**6,046**	**8,915**	**1,307**

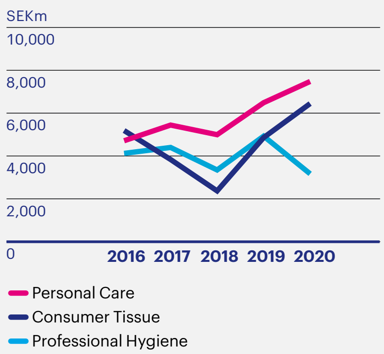
Operating cash flow, share of Group



Investments in non-current assets



Operating cash flow by business area



Financial position

Assets and capital employed

The Group's total assets decreased 4.7% compared with the preceding year, amounting to SEK 154,645m (162,295). Non-current assets decreased SEK 8,785m compared with the preceding year to SEK 111,529m (120,314), of which property, plant and equipment amounted to SEK 53,631m (56,900) and intangible assets to SEK 50,898m (55,763).

Current assets totaled SEK 43,116m (41,981). Working capital amounted to SEK 7,146m (6,782). Capital employed was 6.7% lower and totaled SEK 106,030m (113,741).

Equity

The Group's equity increased by SEK 541m during the period, to SEK 63,342m (62,801). 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.

Financing

The Group's interest-bearing gross debt amounted to SEK 43,353m (48,191) at year-end. The maturity period was 3.1 (3.1) years.

During the year, net debt decreased year-on-year by SEK 8,252m 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.

Key figures

The debt/equity ratio was 0.67 (0.81). Excluding pension liabilities, the debt/equity ratio was 0.63 (0.76). The visible equity/assets ratio was 35% (33). Adjusted return on capital employed and equity was 15.7% (13.8) and 18.3% (18.4), respectively. The capital turnover rate was 1.1 (1.1). At year-end, working capital amounted to 6% (5) of net sales.

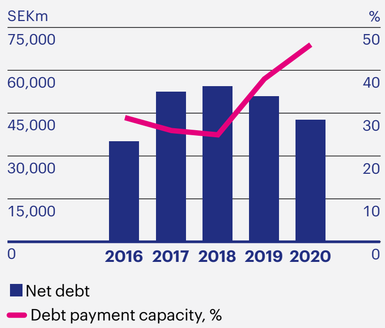
Consolidated capital employed by currency, SEKm

	2020	%	2019	%	2018	%
EUR	43,218	41	43,985	39	43,678	40
USD	17,458	16	20,173	18	20,304	19
CNY	17,750	17	17,376	15	16,865	15
MXN	5,519	5	6,570	6	5,505	5
GBP	4,794	5	5,432	5	5,325	5
Other	17,291	16	20,205	17	17,626	16
Total	**106,030**	**100**	113,741	100	109,303	100

Consolidated balance sheet

SEKm	2020	2019	2018
Intangible assets	50,898	55,763	55,028
Property, plant and equipment	53,631	56,900	51,673
Other non-current assets	7,000	7,651	5,420
Total non-current assets	**111,529**	**120,314**	**112,121**
Current assets	43,116	41,981	42,145
Total assets	**154,645**	**162,295**	**154,266**
Equity	63,342	62,801	54,899
Non-current liabilities	50,230	56,214	57,795
Current liabilities	41,073	43,280	41,572
Total equity and liabilities	**154,645**	**162,295**	**154,266**
Working capital	7,146	6,782	7,568
Capital employed	106,030	113,741	109,303
Net debt	42,688	50,940	54,404

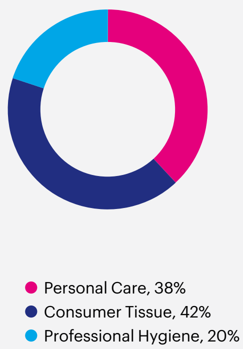
Net debt and debt payment capacity



Adjusted return on capital employed and equity[1]

[1] Excluding items affecting comparability.

Capital employed, share of Group



Risks and risk management

Essity is an international group with sales in approximately 150 countries and manufacturing at about 90 production facilities in some 30 countries. The geographic structure means that operations are conducted in countries and in markets with different cultures and varying degrees of maturity. Essity is exposed to a number of strategic, operational and financial risks, which could exert a negative impact on the Group's operations. Accordingly, it is of major importance that the company has a systematic and effective process to identify, manage and mitigate the effects of these risks.

Processes for risk management
The responsibility for the management of risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to each Business Unit President. The delegation scheme involves risks being managed primarily by Essity's business units, but with clear central coordination and follow-up. The latter is mainly achieved through the business units' continuous reporting and in the annual strategy process.

Risk identification and risk management are a key part of the annual strategy process, where risks are analyzed based on how they impact Essity's opportunities to achieve established targets. Identified risks are assessed according to the likelihood of these becoming a reality and the potential impact each risk could have on the Group. This process also includes specifying who is responsible for managing the risk, and measures for how risks shall be mitigated and followed up. Responsibility and follow-up for the majority of risks are centralized at a global level.

1. Identification and analysis
2. Action for risk management
3. Monitoring

Essity's financial risk management is centralized. The Group's internal bank handles the Group's financial risks and energy risks. The financial risks are managed in accordance with the Group's finance policy, which is adopted by Essity's Board of Directors. Together with Essity's energy risk policy, the finance policy constitutes a framework for financial risk management. The risks are compiled and continuously monitored. Responsibility for insurable operational risks is managed by the Group Risk Management & Insurance department. Risks related to ethics, human rights and other sustainability risks as well as information security are aggregated and monitored on a regular basis at Group level.

Essity has a corporate internal audit unit, which follows up that Essity's organization complies with the adopted policies.

Based on current knowledge, the following are deemed to be the main factors that risk materially negatively impacting the operations and Essity's ability to achieve established targets:

GDP trend and economic conditions

Risk
Demand for Essity's products is affected by general macroeconomic fluctuations and the resulting changes to customer purchasing power and consumption patterns. For example, a tighter budget situation in the public sector or among business customers influences sales in the healthcare sector and business-to-business, respectively. Sales to the retail sector, which accounts for the bulk of sales of hygiene products, may also be affected by reduced purchasing power among consumers.

Action

Essity continuously works to manage the effect of cyclical fluctuations that arise, for example, through measures to reduce costs, increase efficiency and to create higher customer value through product innovations. Essity also works on differentiation to move toward product areas that are less sensitive to economic fluctuations.

Environmental impact and climate change

Risk
Essity's operations and the products used in the manufacturing process have an impact on air, water and land. Essity is subject to extensive environmental regulations in all of the countries where the company conducts operations. More stringent environmental requirements, remediation of the environment in connection with plant closures or breaches of permits could incur higher costs for the Group. Risks related to climate change and the financial implications of such change, for example, increased production costs and investment requirements, have increased in importance.

Action

Essity's strategic framework and sustainability target stipulate guidelines for the Group's measures within the environmental area. Environmental impact and the impact of climate change are part of the annual strategy process, which includes the identification, assessment and actions for managing these types of risks. Risks are managed, for example, through preventive work in the form of certified environmental management systems, environmental risk inspections in conjunction with acquisitions, and remediation projects in connection with plant closures. The use of energy, water, transport, production waste and raw materials is controlled using the company's Resource Management System (RMS). The system also enables the simulation of investments on the basis of climate aspects. The data is used for internal control and follow-up of established targets. Essity also works to reduce the volume of production waste.

Essity has adopted the Science Based Targets issued by the Science Based Targets initiative (SBTi) to reduce the company's climate impact and to support the 2015 Paris Agreement. Through clear governance and responsibility for climate targets within Essity's management team, climate impact also constitutes a clear part of the company's business strategies and financial planning. Essity works to reduce carbon emissions by, for example, making investments in renewable energy and energy-saving programs. In addition, Essity has adopted targets relating to packaging, which are part of Essity's commitment to the Ellen MacArthur Foundation's plastics initiative. The targets aim to increase the proportion of renewable or recycled material in the company's packaging. In 2020, Essity carried out scenario analyses to evaluate in detail the effects climate change may have on Essity's operations in the years ahead.

Read more about Essity's reporting based on the recommendations of the framework of the Task Force on Climate-related Financial Disclosures (TCFD) on pages 42–43.

Dependence on major customers and sales channels

Risk

Essity's success is attributable to its ability to offer attractive products, services and brands and to make these available to customers and consumers. Essity's products are sold through retailers, pharmacies, e-commerce, distributors and resellers, with retail representing the single largest customer category. If these players are not successful in selling Essity's products, this could have a negative impact on Essity's earnings. In general, there is a consolidation trend in several of Essity's sales channels and markets, particularly in the retail trade, through mergers and purchasing alliances, which could increase dependence on individual, large customers. Digitalization is also changing customer and consumer behavior, preferences and demand, and is leading to a gradual shift in channels toward an increased share of e-commerce.

Action

Essity's customer structure is relatively dispersed, with customers in many different geographies and areas of business. In 2020, Essity's ten largest customers, most of them retail companies and distributors, accounted for 22.5% of net sales. The company works to maintain strong long-term customer relationships in strategic customer segments, and to build relationships with new customers. Essity is participating through a continuous and steady increase in its e-commerce and also by aligning to the new and changing purchasing and consumption patterns. Essity also places great importance on developing processes, products and information to ensure customer satisfaction.

Production facilities

Risk

Essity has around 90 production facilities in some 30 countries. Fires, machinery breakdowns and other types of harmful incidents in plants could lead to considerable value destruction, and loss of production and income, which ultimately, could have a negative impact on Essity's market position.

Action

From this perspective, the aim of Essity's risk management is to protect its employees, the environment, the company's assets and the business properly and in a cost-efficient manner. Essity strives to create and maintain a balance between loss-prevention activities and insurance coverage. The loss-prevention work is conducted in accordance with established guidelines that include repeated inspections carried out by external risk engineers. Other important elements of loss-prevention activities are maintenance of production plants and machinery, staff training, and good orderliness. Essity invests continuously in loss-prevention activities to reduce its risk of damage in various ways. For example, the sites are usually protected by sprinkler systems. All wholly owned facilities are insured at replacement cost and for the loss of income. Within the EU, insurance is primarily conducted within the company's own insurance company, with external reinsurance for major damages. Outside the EU, Essity cooperates with market-leading insurance companies.

Unethical business practices

Risk

Essity works in a large number of countries and in environments where unethical business practices and violations of human rights may occur. The risk of such business practices is deemed to be very serious. The financial consequences of violations may be very severe in the form of various sanctions and fines. Violations also risk having a negative impact on the company's reputation in the market.

Action

Essity has a program for regulatory compliance, which aims to minimize the risk of Essity taking part in or being associated with unlawful or unethical business practices or committing violations of human rights. The program is based on a Code of Conduct adopted by the Board of Directors. The Code contains policies for how the company and its employees are to conduct themselves in the workplace, in the community and in the market. Essity's employees are routinely trained in the Code of Conduct. Within certain areas – corruption and competition regulations – Essity has an in-depth program for risk evaluation and various training courses for employees. The implementation of the regulatory compliance program is reported continuously to the Compliance Council, which includes parts of the Essity management team and where internal audit has an opportunity to take part in work.

Employees

Risk

To meet its targets, Essity is dependent on being able to recruit, retain and develop qualified and motivated employees. There is high competition for skilled employees.

Action

Essity ensures access to employees with relevant competence through strategic staffing and succession planning. Essity strives to build a reputation for the company as an attractive employer. This includes health and safety in the workplace, market-based and competitive forms of employment, personal development plans and the possibility to take on new challenges in the Group. In the recruitment of employees, it is important to create a modern and attractive corporate culture. Essity also works actively to build and maintain good relationships with union organizations.

Legal risks

Risk

Legal risks comprise a number of risks in, to some extent, diverse areas. Amended legislation, violations of laws in the operations or errors in any agreements signed by Essity, are some examples of legal risks that could have negative financial implications for Essity. In certain instances, they may also result in protracted and costly legal processes.

Action

Essity constantly monitors developments in a number of areas and addresses any legal risks that arise in cooperation with external advisers. Legal issues are often national by nature, which means that local experts are also often engaged by Essity in various issues.

Suppliers

Risk
Essity is dependent on a large number of suppliers. The unplanned or sudden loss of key suppliers could result in increased costs and disruptions to the company's production. Suppliers could also cause problems for Essity through non-compliance with applicable legislation and guidelines or by otherwise acting in an unethical manner.

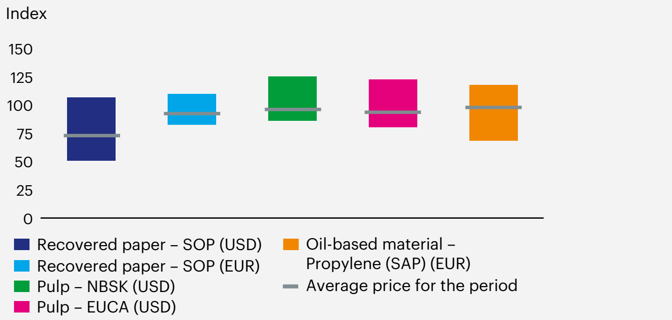
Action

Essity enters into supply contracts of various durations with a large number of different suppliers. These agreements ensure the supply of key input goods. The Group has several suppliers for essentially all important input goods. In-depth collaboration also occurs with specially selected suppliers in the development of materials and processes. Essity continuously evaluates its suppliers to ensure compliance with agreements entered into. Particular importance is placed on suppliers operating in countries and industries deemed to be more vulnerable to risks. The assessment of key suppliers may take the form of a questionnaire, on-site visit or independent audit.

Cost of input goods

Risk
Input goods account for a considerable part of Essity's total operating expenses. The market price of input goods fluctuates over time and could influence Essity's earnings positively or negatively. The price trend for a number of input goods over the past ten years is presented in the diagram below.

Highest/lowest market prices (annual average) 2010–2020 per input goods



Action

Fiber (pulp and recovered paper) is a significant cost item, mainly in Consumer Tissue and Professional Hygiene. Essity is evaluating alternative types of fiber, such as wheat straw as a means of diversifying fiber sourcing in the future. The cost of oil-based materials is driven by the trend in oil prices and represents a major cost item in Personal Care and for various packaging materials. The trend in oil prices also impacts transport costs. The impact of price movements on input goods can be delayed through purchasing agreements with fixed durations. Efficiency improvements in the company's operations, altered product specifications and price increases are examples of measures to offset the effect of rising costs for input goods.

Essity's costs for input goods are described on page 138.

Information and IT

Risk
Essity relies on IT systems for its operations. Disruptions or faults in critical systems, as well as the increasing prevalence of cyber-attacks, risk having a direct impact on production and other important business processes. Errors in financial systems risk affecting the company's reporting of results.

Action

Essity has a management model for IT that contains governance, standardized IT processes and an organization for information security. The latter works with continuous risk assessment, preventive measures and the use of security technologies. Standardized procedures are in place for implementing and changing systems and IT services, as well as for daily operations.

Energy price

Risk
Energy price risk is the risk that increased energy prices could adversely impact Essity's operating profit. Essity is exposed to movements in the prices of electricity and natural gas, but the prices of other energy commodities also directly and indirectly impact Essity's operating profit.

Action

Essity centrally manages the energy price risk related to electricity and natural gas. According to Essity's Energy Risk Policy, these price risks can be hedged for a period of up to 36 months. Exceptions are made for regulated and non-hedgeable markets. Energy prices are hedged through financial instruments and fixed pricing in existing supply contracts.

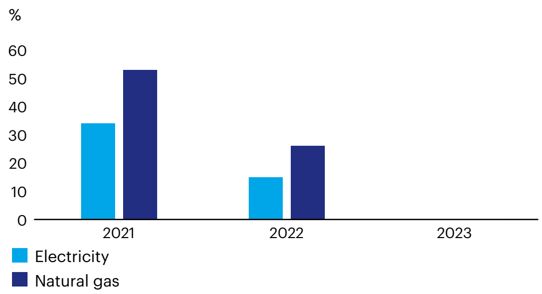
Essity safeguards the supply of electricity and natural gas through centrally negotiated supply contracts. The portfolio of supply contracts and financial hedges is effectively spread to minimize Essity's counterparty risk.

In 2020, Essity purchased about 5 TWh (5; 5) of electricity and about 7 TWh (8; 8) of natural gas.

The graph shows Essity's price hedges in relation to forecast consumption of electricity and natural gas for the next three years. The graph includes financial hedges and hedging effected via supply contracts.

For further information concerning financial price hedges, see Note E6 Derivatives and hedge accounting on page 100.

Energy price hedges in relation to forecast consumption, December 31, 2020



Currency

Risk

Transaction exposure

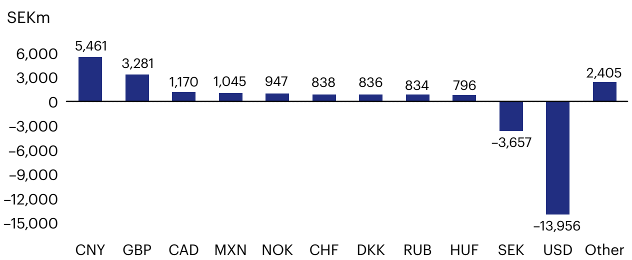
Transaction exposure is the risk that exchange rate movements in export revenues as well as import expenses and other costs could negatively impact the Group's operating profit and the cost of non-current assets.

Action

Most of Essity's business is conducted outside Sweden and transaction exposure therefore arises primarily in currencies other than SEK. The largest exposure comprises a purchase requirement for USD and selling requirements for CNY and GBP. The significant USD exposure is a consequence of the Group's purchase of pulp that is invoiced in USD.

Transaction exposure, resulting from exports and imports, can be hedged for a period of up to 18 months. Contracted future payments for non-current assets in foreign currencies can be hedged up to the full cost. The currencies with the greatest net volume were hedged as follows: USD 1.2 months, CNY 0 months, GBP 1.2 months. During the year, there was continuous hedging of, primarily, trade receivables and payables, as well as future payments of non-current assets. The majority of hedges mature during the first quarter of 2021.

Net flows in 2020



For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting on page 100.

Risk

Translation exposure

Translation exposure is the risk to which Essity is exposed when translating foreign Group companies' balance sheets and income statements to SEK.

Action

Essity manages translation exposure by distributing the liability across the various currencies where the Group owns assets so that key figures that are important for the company's credit rating are protected in the long term against exchange rate effects. Translation exposure in the income statements of foreign Group companies is not currency-hedged. As at December 31, 2020, net debt amounted to SEK 42,688m (50,940; 54,404).

Net debt distributed by currency

Currency	Net debt SEKm	Percentage of net debt 2020 %	2019 %	2018 %
EUR	18,190	43	42	46
SEK	7,652	18	19	11
USD	7,002	16	10	13
GBP	5,085	12	14	15
CNY	3,262	8	5	7
MXN	1,529	4	5	4
HKD	654	2	4	3
Other	–686	–3	1	1
Total	**42,688**	**100**	**100**	**100**

For further information relating to hedging of translation exposure, see Note E6 Derivatives and hedge accounting on page 100.

Risk

Long-term currency sensitivity

The table below presents a breakdown of the Group's net sales and operating expenses by currency, which provides an overview of the Group's long-term currency sensitivity. The largest exposures are denominated in EUR, USD, CNY and GBP.

Currency	Sales %	Costs %	Adjusted EBITA[1] SEKm	Average rate 2020
EUR	38	37	8,098	10.4721
USD	13	27	–12,026	9.1749
CNY	12	7	7,430	1.3303
GBP	8	4	4,379	11.7760
MXN	5	4	2,119	0.4296
COP	3	3	420	0.0025
RUB	3	2	770	0.1276
SEK	2	4	–962	1.0000
Other	16	12	7,398	
Total	**100**	**100**	**17,626**	

[1] Excluding items affecting comparability.

Credit

Risk

Credit risk refers to the risk of losses due to a failure by Essity's customers, or counterparties in financial agreements, to meet payment obligations.

Action

Credit risk in trade receivables
Credit risk in trade receivables is managed through credit checks of customers using credit rating companies. The credit limit is set and regularly monitored. Trade receivables are recognized at the amount that is expected to be paid based on an assessment of the expected credit losses for the remaining lifetime of all trade receivables at the balance sheet date. For further information concerning trade receivables and recognition of anticipated credit losses, see Note E3 Trade receivables on page 98.

Financial credit risk
Essity's finance policy regulates the maximum permitted counterparty risk depending on the counterparty's credit rating from the credit rating agencies Standard & Poor's, Moody's and Fitch. The objective is that counterparties must have a minimum credit rating of BBB+ or equivalent from at least two of these credit rating agencies.

Credit exposure in derivative instruments is calculated as the market value of the instrument on the balance sheet date. Credit exposure in derivative instruments amounted to SEK 1,650m (971; 1,255), gross. Taking net calculation agreements per counterparty into consideration, credit exposure of derivatives amounted to SEK 887m (551; 810). At year-end, the total credit exposure was SEK 6,208m (3,750; 4,028). This exposure includes credit risk of SEK 5,048m (2,928; 3,081) for financial investments. Refer to the table below for the distribution of credit risk by category.

Financial credit exposure

	Category[1]			
SEKm	**A**	**B**	**C**	**Total**
Financial assets measured at fair value through other comprehensive income	–	–	96	96
Financial assets measured at amortized cost	105	–	72	177
Cash and cash equivalents	4,188	353	441	4,982
Current investments >3 months	–	66	–	66
Derivative assets, net	887	–	–	887
Total	**5,180**	**419**	**609**	**6,208**

[1] A: Investment grade, a long-term credit rating from one or more of the agencies of at least: Moody's (Baa3), Standard & Poor's (BBB–) and Fitch (BBB–)
B: Non-investment grade, a long-term credit rating lower than: Moody's (Baa3), Standard & Poor's (BBB–) and Fitch (BBB–)
C: No credit rating (mainly assets that lack a separate credit rating and cash and cash equivalents in regulated markets)

Liquidity and refinancing

Risk

Liquidity and refinancing risk is the risk that Essity is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising new loans.

Action

To ensure good access to loan financing, regardless of economic situation and on attractive terms, Essity strives to maintain a solid investment grade rating.

Essity maintains a financial flexibility in the form of a liquidity reserve consisting of cash and cash equivalents and unutilized credit facilities totaling at least 10% of the Group's forecast annual sales. Essity limits its refinancing risk by having a well distributed maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, taking unutilized credit facilities which are not part of the liquidity reserves into account. Surplus liquidity should primarily be used to amortize external liabilities. Essity's policy is to avoid terms that entitles the lender to terminate loans or adjust interest rates as a direct consequence of movements in Essity's financial key ratios or credit rating.

The Group's financing is mainly secured by bank loans, bond loans and through issuance of commercial papers. The refinancing risk in short-term borrowing is mitigated through long-term credit facilities from bank syndicates and individual banks with favorable creditworthiness.

Essity's net debt decreased by SEK 8,252m in 2020. At year-end, the average maturity of gross debt was 3.1 years (3.1; 3.5). If short-term loans would be replaced with long-term unutilized credit facilities, the average maturity would amount to 3.8 years. Unutilized credit facilities amounted to SEK 20,056m at year-end. In addition, cash and cash equivalents totaled SEK 4,982m.

Liquidity reserve

SEKm	**2020**	**2019**	**2018**
Unutilized credit facilities	20,056	20,850	20,554
Cash and cash equivalents	4,982	2,928	3,008
Total	**25,038**	**23,778**	**23,562**

SEKm	**2020**	**2019**	**2018**
Net sales	121,752	128,975	118,500
Liquidity reserve[1]	21%	18%	20%

[1] Liquidity reserve as a percentage of net sales.

For further information, see Note E2 Financial assets, cash and cash equivalents on page 98, and Note E4 Financial liabilities on page 99.

Interest rate

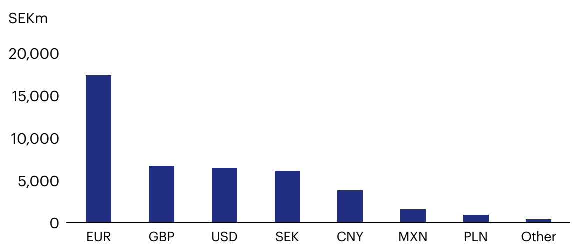
Risk

Interest rate risk relates to the risk that changes to interest rates could have a negative impact on Essity. Essity is affected by interest rate movements through financial income and expenses, cash flow and the value of its financial assets and liabilities.

Action

Essity strives to achieve a solid distribution of its interest maturity dates to avoid large debt volumes of renewals occurring at the same time. Essity's policy states that the average interest duration shall be a minimum of 3 months and a maximum of 36 months. Essity's financial items decreased in 2020. Lower interest rates and lower average net debt had a positive impact. Essity's major funding currencies are EUR, GBP and USD, refer to the graph on the right. To achieve the desired interest rate duration, Essity uses financial derivatives. The average interest rate duration for the gross debt, including derivatives, was 21.2 months (24.7; 26.7) at year-end. The average interest rate for the total outstanding net debt including derivatives, amounted to 1.61% (2.11; 2.55) at year-end.

Gross debt distributed by currency



Climate-related risks and opportunities

Climate change affects Essity. The company identifies the risks and opportunities this entails, by means of, for example, scenario analyses. This helps to identify, manage and minimize the risks and to thus take the correct and necessary actions and also estimate and reduce the negative financial impact. Essity also strives to identify opportunities and further develop the company's strengths in its sustainability work to achieve competitive advantages.

Reporting based on the recommendations of the framework of the Task Force on Climate-related Financial Disclosures (TCFD).
See also page 133 for an index of where more TCFD-related information can be found in the Annual and Sustainability Report.

Strategy and governance

The identification and assessment of climate-related risks and opportunities are part of Essity's strategy process. Climate risks and opportunities are evaluated in each business unit and in a centrally coordinated internal expert group that represents key functional competencies for climate-related topics in Essity.

Responsibility for managing climate risks follows the company's delegation scheme, which is described on page 36. Sustainability issues are discussed on an ongoing basis by Essity's Board of Directors and in 2020 comprised a focus area in the work of the Board of Directors.

Targets and KPIs

For many years Essity has worked with sustainability throughout the value chain: from responsible raw material sourcing, more efficient production with a smaller climate footprint, and sustainable solutions to customers and consumers. The sustainability work has been broken down into several targets and KPIs as Essity takes the approach that if you measure it, it will get done. The targets are ambitious and the company will also continue to grow. This places demands on the need to make a transition and on new production methods and circular business models, which is a challenge but if handled correctly also offers business opportunities and cost savings. Essity's targets to reduce carbon emissions were approved by the Science Based Targets initiative in 2018. For Scope 1 and 2, Essity has undertaken to reduce greenhouse gas emissions by 25%, and for Scope 3 by 18% by 2030 compared with 2016.

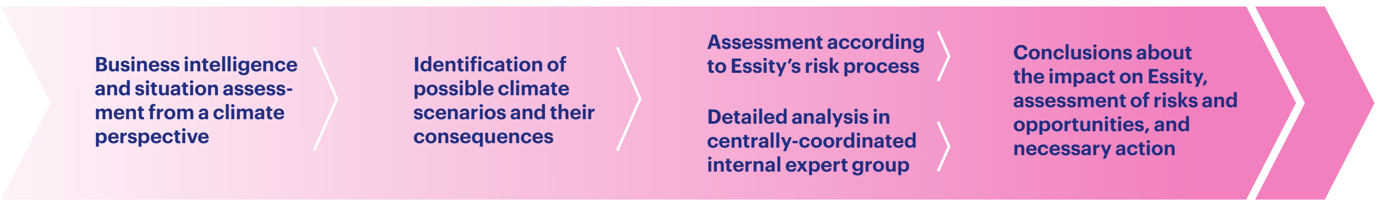
Essity has appointed a steering committee to ensure that it meets the climate targets. This committee is led by members of Essity's Executive Management Team and its task is to prepare plans for delivering on all Scope 1, 2 and 3 targets.

Read more about the Essity's targets and outcomes on pages 22–23.

Climate-risk analysis

A climate-risk analysis based on the recommendations of the framework of TCFD was completed in 2020. The analysis uses two different climate scenarios. Temperature change was studied from a long-term perspective until 2100. A ten-year perspective was used, until 2030, in order to draw conclusions about the impact on Essity. The analysis was based on the impact of climate change and the impact of changes to legislation.

Process



Sustainability governance

Contributing to a sustainable and circular society is crucial to Essity. A healthy society is good for Essity. Based on well-defined areas of responsibility and follow-up, the company ensures that it delivers on established sustainability targets. To tackle increasing sustainability challenges, we also continuously develop our ambitions in dialogue with our stakeholders and external experts.

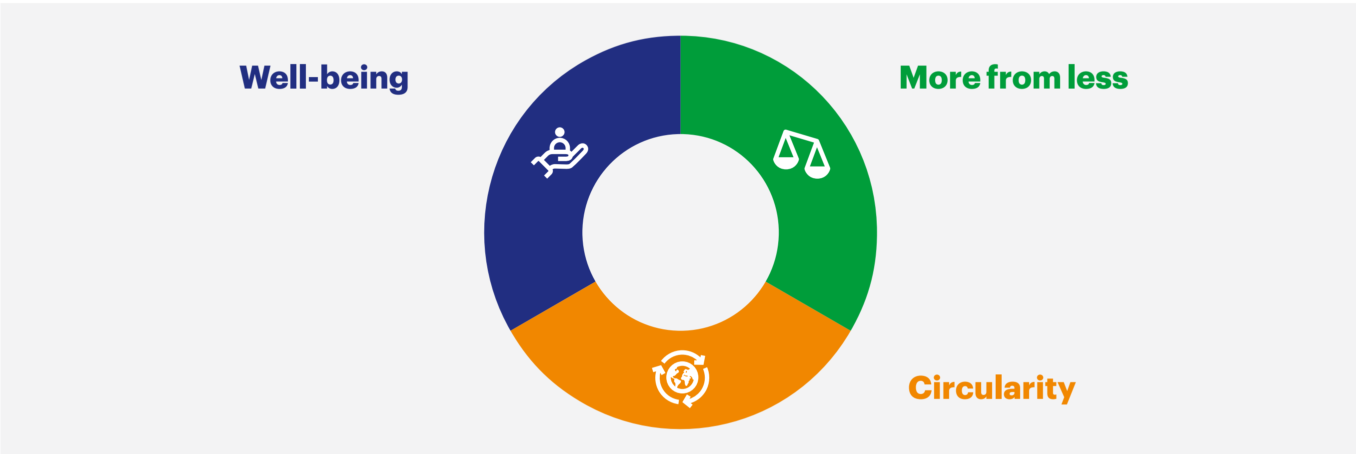
Essity's overall objective is to achieve and maintain the company's economic value creation with respect to social and environmental value creation. We want to improve well-being for people by providing better solutions with a lower impact on the environment. The Board has established a number of sustainability targets that are monitored and reported annually. To ensure that these targets are met, numerous policies and management systems are in place.

Essity's sustainability governance aims to ensure the company's commitments to its stakeholder groups, including customers, consumers, employees, shareholders, suppliers, creditors, decision-makers and representatives of the community. The company's commitments are expressed in the strategic framework, in objectives and in strategies. We maintain an active and continuous dialogue with our stakeholders to ensure that Essity's priorities and methods are relevant over time.

Sustainability is incorporated throughout Essity's operations which is why sustainability governance forms an integrated part of the Group's overall corporate governance. Accordingly, sustainability-related matters are an integrated part of all of the meetings conducted by the company's Board and Executive Management Team, and in the various business units and global units, as well as in Group functions. A number of committees and networks in the company's various business units contribute insight and seek supplementary expertise from external sources, as well as ensuring a consistent approach.

Essity's sustainability work is pursued from three platforms: Well-being, More from less, and Circularity. In addition, sustainability governance includes Employees and Business ethics and human rights.

Essity's sustainability platform



Well-being

Essity's leading hygiene and health solutions cover all phases of life and can be used by individuals and society. Our contribution:

- Increasing access to hygiene and health solutions
- Providing safe products
- Taking an active role in society

More from less and Circularity

We aim to create more value using less resources and contribute to a circular society. Our contribution:

- Reducing environmental impact from materials
- From waste to resources
- Reducing climate impact
- Improving water use

Employees

Sustainability work is dependent on our employees and our culture.

Business ethics and human rights

Essity's business ethics is crucial in our work in areas such as human rights.

Read more on

Corporate governance .... pages 52–57
Sustainability targets 22–23
Contribution to the UN Sustainable Development Goals .... page 21
More on sustainability governance .... essity.com/sustainability

Well-being

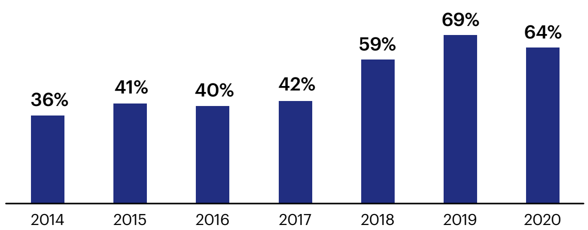
As a global company, Essity can make a difference for people and societies. We offer hygiene and health solutions for hundreds of millions of people every day, which helps to improve well-being and gender equality. We share our expertise and drive global dialogue to increase awareness about the importance of hygiene and health and to break the taboo surrounding these.

Increasing access to hygiene and health solutions

Millions of people around the world lack fundamental solutions that could improve their quality of life. There are many reasons for this, for example, they do not have access to them or cannot afford them, the infrastructure is not in place or due to social stigma. It is essential to meet these needs. Essity wants to enhance the quality of life for more people and raise the hygiene and health standards around the world by increasing access to sustainable solutions and striving to break barriers surrounding hygiene and health that exist in our society.

To achieve this, we spend a large amount of time with our customers, consumers, users and other societal actors. This allows us to develop solutions based on a unique insight into the needs, challenges and expectations of our customers and consumers as well as whole societies. In this way, we enable and create value together for all of society Essity's Group target is that at least 33% of the company's innovations are to yield social and/or environmental improvements. Examples of innovations in 2020 include packaging with recycled or renewable plastic, face masks and washable absorbent underwear.

Sustainable innovations



Providing safe products

Product safety and product quality are of the utmost importance. For us, it is also important that our customers and consumers can easily find out what our products contain. We provide clear, reliable and accessible product information.

Essity complies with prevailing laws and regulations for the company's products. If specific sector requirements are lacking, we always comply with general legal frameworks on product safety. Essity monitors current research and continuously strives to make improvements in line with this research. This includes driving safety standards through voluntary undertakings that exceed statutory requirements. For example, Essity was involved in drawing up an industry standard in the EDANA association to harmonize assessment methods and enhance transparency of traces of chemicals in absorbent hygiene products.

We follow strict requirements and extensive procedures under our certified quality system (ISO 9001) to ensure that all materials and ingredients in the company's production and products are safe for consumers, customers, employees and the environment. Essity works closely with our suppliers to ensure they meet the company's Global Supplier Standard and guidelines.

A daughter visits her mother at a retirement home in Italy in 2020. The face masks are produced by Essity.

One important element of Essity's work to improve our solutions is feedback from our customers and consumers in the form of complaints and feedback. We always investigate whether there is cause for action beyond responding to the individual case. The company undertakes targeted corrective and preventive action.

Taking an active role in society

We leverage our global reach to break barriers to well-being and share our expertise in hygiene and health in such areas as hand hygiene, menstruation and incontinence. As a means of contributing to global dialogue and driving forward social solutions, we regularly publish "The Hygiene and Health Report." This report is a collaboration with the Water Supply and Sanitation Collaborative Council (WSSCC), and was presented at the United Nations Foundation 2020 Global Dialogue.

To further contribute with our knowledge and expertise, we participate in various national and international industry organizations and other partnerships and dialogues. In addition to contributing relevant expertise, the aim is to, at an early stage, gain knowledge and actively promote development of areas that have an impact on the company, such as environmental and climate issues, trends in health, hygiene, and other social issues. Essity's Public Affairs department is responsible for ensuring governance, strategy and implementation of this work.

We strive to be a dedicated partner in various local communities. In accordance with Essity's Community Relations Instruction, the company primarily prioritizes initiatives with a clear link to the company's operations, where our expertise can make an effective contribution. One example of an initiative is arranging education courses in hygiene and health for various societal partners. The guidelines state that Essity shall be politically and religiously neutral.

Read more about Essity's results

H3. Innovation .... page 120
H4. Customers and consumers .... page 121
H5. Role in society and community relations .... page 121

duced by Essity is Tork PaperCircle®, where used paper hand towels are collected and recycled.

Reducing climate impact

Climate change is the defining issue of our time. Its effects are far-reaching and global. We ensure that we reduce our greenhouse gas emissions through collaboration and innovative and environmentally sound solutions.

In 2018, Essity adopted Science Based Targets for the reduction of our greenhouse gas emissions. These targets were approved by the Science Based Targets initiative. The targets help companies determine which emission reductions they need to achieve to decrease the global temperature rise, as agreed by the countries of the world at the 2015 UN climate change conference (COP 21) in Paris.

In terms of energy use within the company and purchased electricity (Scope 1 and 2), Essity has undertaken to reduce emissions by 25% by 2030 compared with 2016. The target applies to wholly owned companies. Essity has, moreover, undertaken to reduce greenhouse gas emissions from the most important purchased raw materials, transport, waste arising from operations and handling at the end of the life cycle for sold products (Scope 3) by 18% by 2030 compared with 2016. We measure climate impact for our range of products through life cycle assessments.

To ensure that we meet the climate targets, Essity has appointed a steering committee led by members of Essity's Executive Management Team, with the task of preparing plans for delivering on all Scope 1, 2 and 3 targets.

Activities to reduce the environmental impact of suppliers and materials are presented on the previous pages. Our efforts in the areas of energy, electricity and transport are presented below.

Energy and electricity

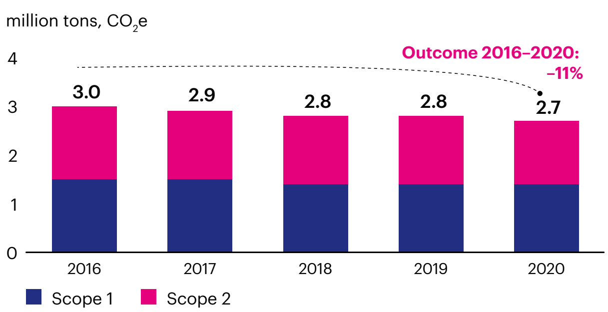
Energy efficiency, new technology and the greater use of renewable energy are required to achieve Essity's stated targets. Essity has a long history of enhancing energy efficiency. ESAVE is an Essity program that comprises investments in energy efficiency, and engages employees in the daily improvement activities for energy use. The company cooperates with external stakeholders such as machinery suppliers to ensure energy efficiency, continuous improvements and the compliance of new equipment with the latest environmental requirements. In 2020, Essity increased its share of renewable energy at the company's plants in Europe.

Transport

Essity's transportation activities primarily comprise the transportation of raw materials to our production facilities, and the delivery of finished products to our customers. Essity uses external suppliers for its transportation requirements. When possible, Essity prioritizes emissions-effective transport methods such as barges, rail transportation and inter-model combinations (rail/truck) for long-distance transportation. Sea freight represents the largest share of Essity's inbound transportation, while outbound transportation mainly comprises road and rail freight. Essity has a strong focus on and prioritizes vehicle types that meet the requirements of the latest environmental and emissions classes combined with the most up-to-date alternatives, such as CNG fuel and electric trucks.

Essity participates in various local projects and partnerships with customers and suppliers to jointly reduce emissions from transportation.

Emissions to air, Science Based Targets, Scope 1 and 2



Improving water use

People around the world experience uncertainty concerning access to water, known as water stress. This affects Essity's operations, from access to raw materials and production facilities to the communities in which our employees and consumers live.

Essity strives to reduce water use and works continuously to enhance its water treatment and thus the quality of the effluent water discharged from its plants. Our target for water is that the company's tissue operations will reduce the level of suspended solids, the volume of water used and organic content (BOD) by 10% by 2020, with 2014 as reference year. This water is treated using mechanical and biological treatment systems.

TCFD framework

Essity's reporting based on the recommendations of the framework of the Task Force on Climate-related Financial Disclosures (TCFD) can be found on pages 42–43. See also page 133 for a list of where more TCFD-related information can be found in the Annual and Sustainability Report.

EU taxonomy

For some time now Essity has worked with sustainability throughout the value chain: from responsible raw material sourcing, more efficient production with a lower climate footprint, and sustainable solutions to customers and consumers. The company's targets to reduce carbon emissions were approved by the Science Based Targets initiative in 2018. The target for 2030 for Scope 1 and 2 is to reduce emissions by 25%, and for Scope 3 by 18% with 2016 as the base year. Essity researches and invests in several ideas in sustainable technology in its manufacturing processes with the aim of reducing the company's environmental footprint. In 2021, for example, Essity will start up a pulp plant at its facility in Mannheim, Germany. The plant will produce high-quality pulp from wheat straw that will use less water, energy and chemicals as well as reducing carbon emissions. New offerings and business models are under development in Essity that contribute to a more sustainable society and reduce the environmental footprint of both the company and customers and consumers. Essity has been recognized as one of the world's 100 most sustainable companies by Corporate Knights at the annual meeting of the World Economic Forum in 2021. Essity is monitoring developments in the EU's taxonomy to identify and influence the extent to which the company's activities will be covered by the taxonomy, its provisions and definitions.

Read more about Essity's results

Employees

Essity offers career opportunities in a leading global hygiene and health company that is breaking barriers to well-being in the world. Employees at Essity make a difference and improve people's quality of life by providing access to leading hygiene and health solutions and increasing knowledge in these areas through development initiatives and collaboration. Essity's employees are the company's main asset and we strive continuously to develop our corporate culture, expertise and leadership to create the best possible conditions for a successful Essity. All Essity employees are to be treated fairly and respectfully. We value and work continuously to increase diversity in the company.

Development is important

Everyone should understand their contribution to generating results. It is important that Essity's employees have the right skills and are committed to performing at their best. In so doing, employees can grow as individuals and contribute to the development of the company. Employees are expected to continuously learn and develop. Everyone should give and receive regular feedback. We strive to leverage the opportunities offered by digitalization to facilitate ways of working and processes. This is all supported by leaders who nurture a supportive and enabling environment. As a mean of developing functional skills, Essity provides a number of academies with comprehensive training programs for employees.

One aim of Essity's global human resources strategy is that the company should be perceived as an attractive workplace for existing and potential employees and that Essity is a safe and healthy workplace, based on ethical business practices. Essity recruits and develops employees in line with its strategic competence plan. The plan is based on Essity's strategy, demography and access to expertise and determines the measures that the company needs to take to meet future skills and resource requirements.

Culture is key

Essity's corporate culture is central to its operations and is formulated in a set of "Beliefs and behaviors." These serve as a compass to offer guidance in how we are to act as Essity employees.

Diversity and inclusion

As a global company, we value and work continually to increase diversity and inclusion. All employees are recruited, evaluated and promoted based on objective criteria without discrimination with regard to gender, marital status, origin, sexual orientation, religious faith, political affiliation, age, disability or other categories protected by law. This is stipulated in our Diversity Policy. Fundamental to our corporate culture is offering a diverse and inclusive work environment, which helps to strengthen the company and its results. Our diversity and inclusion strategy aims to continuously increase employees' sense of belonging and inclusion of different perspectives, and also seeks to attract and recruit employees motivated by the company's objective of breaking barriers to well-being in society. Everyone who works at Essity is to be treated with dignity and respect and have an opportunity to develop in their career.

To increase the proportion of women in leadership positions, a number of programs and networks are run to highlight and support women in senior positions. The power of diversity and leveraging people's different perspectives are key. The organization receives training in "unconscious bias" with the aim of reinforcing an inclusive approach. Local activities are being carried out in various countries to include our employees with disabilities. A diversity study is held every year and encompasses nationalities, age structure and gender distribution in general and in leadership roles. No unjustified pay differences should exist due to gender, age or background. This is regularly monitored and any unjustified differences are corrected on an annual basis.

Essity's "Beliefs and Behaviors"

We are **committed** to delivering superior results

We **care** for our customers, consumers, the environment and each other

Beliefs

We have the **courage** to take the lead

We **collaborate** across teams, functions and businesses

Caring through a safe and healthy work environment

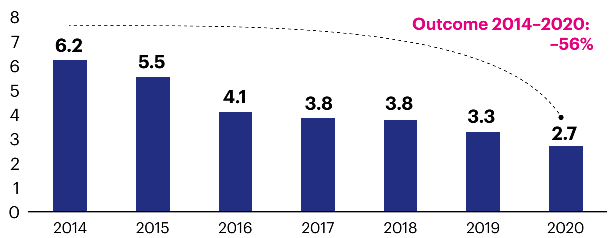
Working at Essity means the right to a safe and healthy work environment. Health and safety for our employees is fundamental to our business and is based on our Beliefs & Behaviors and our Code of Conduct. Nothing we do is worth injury and our highest priority is that everyone who works or visits us, arrives at production facilities and offices that are safe and healthy. Essity's aim is zero workplace accidents and we work proactively to address the issues of safety and health.

Essity implements the international standard OHSAS 18001 (Occupational Health and Safety Assessment Series) to ensure the use of uniform processes within the Group and that Essity's units continuously improve workplace-related health and safety. OHSAS specifies requirements regarding the organization's occupational health and safety management systems.

Essity has a global framework to increase focus and awareness on different perspectives of health and ensures local efforts to secure a healthy work environment. The framework is based on the World Health Organization's (WHO) definition of health and includes the physical, mental and social well-being aspects of the

Accident frequency rate

Number of accidents ("LTA") per million hours worked



work environment. On this basis, Essity conducted self-assessments of health activities at the largest production facilities and offices in 2020. This forms the basis of local action plans. Essity offers health-enhancing activities, training in stress management and work-life balance, opportunities for remote working, flexible working hours and time off, where possible. The aim is to create a sustainable working life based on a healthy workplace.

Remuneration and benefits

Essity offers a "Total Reward" concept. This entails a mix of monetary and non-monetary components. We offer market competitive remuneration comprising salary, variable remuneration, pension and other benefits. We also offer a good working climate, competent leadership, individual development plans and international development opportunities. Together, this forms our "Total Reward" concept. The company follows local salary structures and respects internationally established rules for minimum wages and reasonable compensation. The company works continually to limit and prevent unjustified pay differences and other differences in employment conditions. The programs for variable remuneration are for most employees at Essity.

Employee relations

Transparent communication is fundamental to the trust between the company, its employees and union representatives. Essity recognizes the right of every employee to join a trade union and participate in union activities. The company meets with employee organizations at various levels on a regular basis to inform them of and discuss issues concerning the company's results, forthcoming changes, and health and safety and employment terms and conditions. Essity has an agreement with the industry union IndustriAll. When there is no union representation, Essity establishes other channels where possible, such as an employee council.

Essity supports Global Deal. This is a global partnership with members in the private and public sector. Its aim is to improve the dialogue between parties in the labor market and national governments.

Attractive employer

The basis for Essity to ensure access to competence is that the company is considered to be an attractive workplace, both internally and externally. Based on annual competence planning, we strive to attract potential employees through university events and extensive activity in social media. Knowledge of Essity and the company's attractiveness has been gradually growing since 2017. We have been externally recognized many times for our work on Employer Branding. We offer a manufacturing apprenticeship program to ensure the long-term supply of talent. This takes place in partnership with local schools. Furthermore, we offer a new program to help recent graduates to find their first job and ensure sufficient talent in critical areas. Essity's "GO! Program" is a two-year program in which participants have a combination of project work, development activities and rotation, while also working in proper job. The annual Essity GO! program has 30–50 participates every year.

Leadership for success

Everyone at Essity practices leadership. Regardless of whether you are in charge of an operation, a team, or yourself, leadership skills are needed that ensure success in today's complex and rapidly changing environment.

To enable all employees to perform at their best, continuous dialogues are held between line managers and employees aimed at deciding goals, coaching and development. A digital platform with global processes is used for setting goals, individual development, recruitment, introduction and salary review. The platform is to ensure compliance and to realize Essity's HR strategic framework.

Continuous development of leadership is decisive to our continued success. To achieve this, Essity runs a leadership academy comprising 20 global training programs for managers at various levels or with specific competencies. All new managers take part in mandatory introduction training aimed at creating a shared basis for leadership at the company. In addition to the programs, training is offered through coaching, virtual seminars and leadership publications.

Our leadership platform is at the core of all our leadership activities and encompasses the competences and expectations required to contribute toward Essity's results and culture. Competences form the basis of recruiting and developing employees and thus creating the best possible conditions to deliver on Essity's targets.

Read more about Essity's results

H12 Employees....page 126
H13 Health and safety ....page 127

Materiality analysis

Every second year, Essity conducts a survey of our sustainability work among our stakeholders. This is used as a basis for our materiality analysis, together with continuous dialogue in various forms with our stakeholders. The analysis provides insight into the subject areas our stakeholders consider to be material. The result is part of supporting documentation in Essity's strategy work.

The latest survey was conducted in 2019 and the result showed increased interest in topics such as climate change and waste/circularity as well as plastics. These topped the list, together with innovation and business ethics, which remain the topics that the stakeholders consider most important.

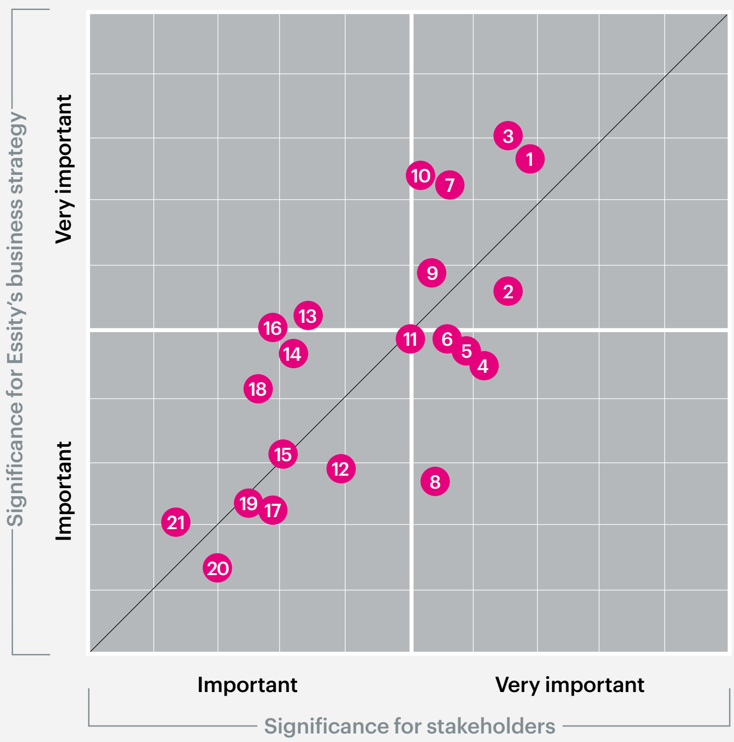
The selection of subject areas to be included in the materiality analysis was guided by employees from different parts of the company. This was done so that the selected areas would be relevant regardless of who responded to the survey. Various frameworks and policy documents such as the Global Reporting Initiative (GRI), the UN Global Compact and Essity's Code of Conduct also formed the basis for the selected areas. The survey covered 21 topics, all of which are important to Essity. Most remained unchanged from previous years so as to facilitate analysis and comparison over time. A number of the subjects were reformulated to cover a larger area. A few of them are new.

Last year's web-based survey yielded approximately 900 responses from customers, consumers, suppliers, investors, analysts, media representatives, community representatives, decision-makers and employees. The respondents were able to select the ten topics they considered most important for Essity. The stakeholders' prioritization of these topics was grouped together with responses from Essity's senior management, whose priorities correspond to the company's business strategy.

The results are presented in the graph below. The X axis shows the responses from all stakeholders except Essity's senior management, whose responses are shown on the Y axis. The responses from the stakeholder groups were weighted to provide an accurate view of the results. The topics are numbered according to how high they were ranked in the survey. There is also a reference to where you can find more information in this year's Annual and Sustainability Report.

A comprehensive account of all topics in the survey can be found at essity.com/sustainability.

Essity's materiality analysis



The stakeholders' ranking of the subject areas

		Read more on pages
1	Innovation	4, 17, 45, 120
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Corporate governance

The task of corporate governance is to ensure the company's commitments to all of its stakeholders: shareholders, customers, suppliers, creditors, society and employees. It must be structured in a way that supports the company's long-term strategy, market presence and competitiveness. Corporate governance shall be reliable, clear, simple and business-oriented. This Corporate Governance Report forms part of the Board of Directors' Report for Essity's 2020 Annual and Sustainability Report. The report has been reviewed by the company's auditors.

Corporate governance, pages 52–57
This section describes applicable regulatory rules and regulations for the Group's corporate governance and the company's management structure and organization. It details the Board of Directors' responsibilities and its work during the year. It also contains a description of Essity's internal control with regard to financial reporting. Essity applies the Swedish Code of Corporate Governance without any deviations (www.corporategovernanceboard.se).

Risk management, pages 36–43
Essity's processes to identify and manage risks are part of the Group's strategy work and are pursued at a local and Group-wide level. The section dealing with risk management describes the most significant risks and measures taken to eliminate or limit these risks.

Sustainability, pages 36–51 and 119–127
Essity's sustainability work is an integral part of the company's business model. The company's statutory sustainability report forms part of the Board of Directors' Report. The sustainability work helps reduce risks and costs, strengthen competitiveness, attract new employees and investors, and contributes toward a more sustainable world.

Governance at Essity

1. Shares and shareholders
Essity has engaged Euroclear Sweden AB to maintain the company's shareholders' register. On December 31, 2020, Essity had 108,856 shareholders according to the shareholders' register. The five largest shareholders in terms of voting rights on this date were AB Industrivärden (29.3%), AMF Insurance and Funds (7.3%), Norges Bank Investment Management (6.8%), MFS Investment Management (2.7%) and Swedbank Robur Funds (2.1%). Essity has two listed classes of shares: Class A and Class B shares. Every Class A share represents ten votes while every Class B share represents one vote. There are no other restrictions relating to voting rights in respect of shares used by shareholders at the general shareholders meeting. The two share classes carry the same entitlement to the company's assets and profits. Furthermore, according to the Articles of Association, owners of Class A shares are entitled to request conversion of their Class A shares to Class B shares. Essity holds no treasury shares.

2. General shareholder meeting
The general shareholder meeting is Essity's highest decision-making body, which all of the company's shareholders are entitled to attend, to have a matter considered and to vote for all shares held by the shareholder. The company's Board of Directors and auditor are elected at the Annual General Meeting (AGM). The AGM also resolves on the remuneration of the Board members, determines guidelines for the remuneration of senior executives and, as of the 2021 AGM, approves the Board's annual remuneration report.

3. Nomination Committee
Shareholders appoint members of the Nomination Committee at the AGM, or stipulate how the members shall be appointed. The Nomination Committee represents the company's shareholders. A majority of the members shall be independent of the company and corporate management. The President and other members of corporate management may not be a member of the Nomination Committee. The main duty of the Nomination Committee is to prepare and present proposals for the AGM's resolutions with respect to election and remuneration matters.

4. External auditors
The company's auditor is elected at the AGM and is responsible for reviewing Essity's annual report and consolidated financial statements and the Board's and President's administration. The auditor conducts a limited review of the company's sustainability report. The auditor submits audit reports from this review. The auditor also submits a statement concerning compliance with the company's guidelines for remuneration of senior executives. The audit is performed in accordance with the Swedish Companies Act, International Standards on Auditing (ISA) and generally accepted auditing principles in Sweden.

5. Board of Directors
The Board of Directors has overall responsibility for the Company's organization and administration. This responsibility is fulfilled, inter alia, through regular monitoring of the business and by ensuring the appropriateness of the organization, including the management team, and by issuing guidelines and reporting from internal control. The Board approves strategies and targets, and decides on major investments, acquisitions and divestments of operations, among other matters. Furthermore, the Board annually prepares a report on the remuneration that has been paid or is pending payment in accordance with the remuneration guidelines decided by the AGM. The Board of Directors comprises nine members elected by the shareholders at the 2020 AGM. According to the Articles of Association, the Board of Directors is to consist of not less than three and not more than twelve members elected by the AGM. The Board of Directors also includes three employee representatives with deputies, who are appointed by the respective employee organizations under Swedish law.

Essity's Articles of Association contain no provisions regarding appointment or dismissal of Board members or amendments to the Articles. The general shareholder meeting has not delegated to the Board to resolve to issue new shares or to repurchase own shares.

Chairman of the Board
The Chairman of the Board leads the work of the Board and is responsible for ensuring that it is effectively organized and that

Global units:
- Global Brand, Innovation and Sustainability has global responsibility for customer and consumer brands, innovation and sustainability and public affairs.
- Global Manufacturing has global responsibility for production and technology concerning all product categories with the exception of medical solutions.
- Global Operational Services has global responsibility for sourcing, logistics, business services, IT and digitalization.

Essity's business units and global units adhere to the principle of distinct decentralization of responsibility and authority. The business units and the global units have a delegated responsibility for managing and developing their respective operations through established objectives and strategies, a process that is also centrally coordinated. The business units are responsible for their operating results, capital and cash flow. The business and earnings position is followed up by the entire Executive Management Team on a monthly basis. Each quarter, business review meetings are conducted during which the management of each business unit personally meets with the President and the CFO. These meetings function as a complement to the daily monitoring of operations. Through working procedures and terms of reference, a number of issues of material significance are placed under the control of the CEO and the company's Board of Directors. Essity reports its operations according to three business areas: Personal Care, Consumer Tissue and Professional Hygiene.

11. Group functions
Essity has four Group functions: Communications, Finance, HR and Legal Affairs. These functions have Group-wide responsibility for matters within their respective fields of responsibility, and coordinate with the corresponding functions in the respective business area.

Rules and regulations
Certain internal rules and regulations
- Articles of Association
- Working procedures of the Board of Directors, including instructions for the Audit Committee and the Remuneration Committee
- Terms of reference issued by the Board to the President
- Code of Conduct
- Policy documents and instructions (in areas such as finance, human resources, sustainability, internal control, communication, pension and risk management as well as for specific issues, such as the processing of personal data, insider issues, conflicts of interest, competition law, corruption and diversity)

Certain external rules and regulations
- The Swedish Companies Act
- The Swedish Annual Accounts Act
- International Financial Reporting Standards (IFRS)
- EU Market Abuse Regulation (MAR)
- Nasdaq Stockholm's rules for issuers
- Swedish Code of Corporate Governance

Compliance with stock market regulations
- Essity complies with rules that apply in Sweden for listed companies and was not sanctioned by Finansinspektionen, the stock exchange's disciplinary board or any other authority or self-regulating body for violations of the rules concerning the stock market.

More detailed information about Essity's corporate governance is available on www.essity.com
- Articles of Association
- Swedish Code of Corporate Governance
- Information from the Nomination Committee ahead of the 2021 Annual General Meeting (composition, proposals and work)
- Other information ahead of the 2021 Annual General Meeting (notice, Board report on application of guidelines for remuneration of senior executives, information about routines for notifying attendance and advance voting, etc.).

Activities during the year

Annual General Meeting
Essity held its AGM in Stockholm on Thursday, April 2, 2020.

The AGM elected the company's Board of Directors. Moreover, the Meeting resolved – in accordance with the Board of Director's proposal – to withhold its decision on a dividend for 2019 on account of the uncertainty arising from the effects of the COVID-19 pandemic. Finally, guidelines for remuneration of senior executives and the President were adopted, see page 56 and Note C2 on pages 87–89.

Extraordinary General Meeting
Essity held an Extraordinary General Meeting on Wednesday, October 28, 2020. Pursuant to the Swedish Act (2020:198) regarding Temporary Exemptions to Facilitate the Execution of General Meetings, the Meeting was held through postal voting only.

The Meeting addressed the Board's proposal regarding payment of a dividend of SEK 6.25 per share. The Meeting resolved in accordance with the Board's proposal.

Nomination Committee
The Nomination Committee of Essity is tasked with making proposals to the AGM in respect of the election of the Chairman of the Meeting, Board of Directors, Chairman of the Board and auditor, remuneration of each Board Member (divided between the Chairman of the Board and other Board Members), remuneration of the auditor and, where applicable, proposals for amendments to the instruction for the Nomination Committee. At the 2020 AGM, the following instructions to the Nomination Committee were adopted to apply until further notice:

"The Nomination Committee is to comprise representatives of the four largest shareholders, who express a wish to take part in the Nomination Committee, in terms of voting rights as per the shareholders' register maintained by the company on the final banking day of August, as well as the Chairman of the Board, who also convenes the first meeting of the Nomination Committee. The member representing the largest shareholder in terms of votes is to be appointed as Chairman of the Nomination Committee. The Chairman of the Board shall not be Chairman of the Nomination Committee. If necessary, due to subsequent ownership changes, the Nomination Committee is entitled to call on one or two additional members from among the next largest shareholders in terms of voting rights. The total number of members shall be not more than seven. In the event that a member steps down from the Nomination Committee before the task is completed and the Nomination Committee decides it would be beneficial for a replacement to be appointed, such a replacement is to be appointed by the same shareholder or, if this shareholder is no longer among the largest shareholders in terms of voting rights, by the next largest shareholder in terms of voting rights. Changes to the composition of the Nomination Committee are to be disclosed immediately.

Nomination Committee for the 2021 AGM

Member	Representative of	Votes as of August 31, 2020 (%)
Helena Stjernholm, Chairman	AB Industrivärden	29.7
Jonas Jølle	Norges Bank Investment Management	7.0
Anders Oscarsson	AMF and AMF Funds	5.4
Marianne Nilsson	Swedbank Robur Funds	1.9
Pär Boman	Chairman of the Board	

The composition of the Nomination Committee is to be announced by Essity no later than six months prior to the AGM. No remuneration is to be paid to the members of the Nomination Committee. Any expenses incurred during the work of the Nomination Committee are to be paid by Essity. The mandate period of the Nomination Committee extends until the composition of the next Nomination Committee is disclosed. The Nomination Committee is to submit proposals relating to the Chairman of the Meeting, the Board of Directors, the Chairman of the Board, Board fees for the Chairman of the Board and each of the other Board members, including remuneration for committee work, the company's auditor and auditor's fees and, to the extent deemed necessary, proposals for amendments to this instruction."

In its work, the Nomination Committee is to consider the rules that apply to the independence of Board members, as well as the requirement of diversity and breadth with the endeavor to achieve an even gender distribution and that the selection shall be based on expertise and experience relevant to Essity.

All shareholders have had an opportunity to submit proposals to the Nomination Committee. The Nomination Committee's proposal for the 2021 AGM is presented in the notice convening the AGM available on Essity's website www.essity.com. The 2021 AGM will be held on Thursday, March 25, see page 10.

The Nomination Committee was convened on seven occasions prior to the 2021 AGM. The Chairman of the Board presented the Board evaluation and provided the Nomination Committee with information regarding Board and committee work during the year. When preparing proposals for the Board for the 2021 AGM, particular attention has been paid to the issues of diversity and an even gender distribution, and the Nomination Committee thus applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy. When preparing its proposal for the election of auditors, the Nomination Committee also gave consideration to the recommendation of the Audit Committee.

Board of Directors and composition of the Board of Directors

Essity's Board of Directors comprises nine members elected by the AGM.

Ewa Björling, Pär Boman, Maija-Liisa Friman, Annemarie Gardshol, Magnus Groth, Bert Nordberg, Louise Svanberg, Lars Rebien Sørensen and Barbara Milian Thoralfsson were elected as Board members in 2020. Pär Boman was elected as the Chairman of the Board.

The independence of Board members is presented in the table below. Essity complies with the requirements of the Swedish Corporate Governance Code that stipulate that not more than one member elected by the AGM shall be a member of corporate management, that the majority of the members elected by the AGM shall be independent of the company and company management, and that not fewer than two of these shall also be independent of the company's major shareholders. All of the AGM-elected Board members have experience of the requirements incumbent upon a listed company. Five of the Board members are women, corresponding to 55% of the total number of AGM-elected Board members. The employees have appointed Susanna Lind (formerly Naumanen), Örjan Svensson and Niclas Thulin as representatives to the Board for the period until and including the 2021 AGM, and their deputies Niklas Engdahl, Martin Ericsson and Andreas Larsson.

The AGM-elected Board members have broad international experience from various cultural and geographic areas and wide-reaching expertise and experience of relevance to Essity's areas of business and products. Accordingly, the Board has – with reference to the company's business, stage of development and general situation – a suitable composition. In addition, the Board of Directors and its committees have an even gender distribution.

Board activities

The Board was convened 12 times, primarily in the form of virtual meetings due to COVID-19. The Board has fixed working procedures that describe in detail which ordinary agenda items are to be addressed at the various Board meetings of the year. Recurring agenda items are finances, the market situation, sustainability issues, investments and adoption of the financial reports. The Board also establishes and evaluates the company's overall targets and strategy and decides on significant internal rules. Another key task is to continuously monitor the internal control of the compliance of the company and its employees with relevant internal and external rules, and that the company has well-functioning procedures for market disclosures. On a regular basis throughout the year, the Board has also dealt with reports from the Audit and Remuneration Committees and reports on strategy, market, internal audit, internal control and financial operations. The company's auditor regularly presents a report on its audit work and these issues are discussed by the Board. The Business Unit Presidents present their respective operations and current issues affecting them.

In 2020, in addition to customary Board work, the Board of Directors had a strong focus on digitalization and sustainability, and closely monitored developments in light of the COVID-19 pandemic and its general impact on the company and, in particular, the markets where the company is active. The Board also focused on strategy work during the autumn.

Evaluation of the Board's work

The work of the Board, like that of the President and the Chairman, is evaluated annually using a systematic and structured process. The purpose of this work is to obtain a sound basis for the Board's own development work and to provide the Nomination Committee with decision data for its nomination work. External expertise was used. The evaluation took the form of an anonymous questionnaire and interviews as well as group and

Board of Directors and committees

			Committees		Attendance[1]		
Board of Directors	Elected	Dependence	Audit Committee	Remuneration Committee	Board of Directors (12)	Audit Committee (6)	Remuneration Committee (3)
Ewa Björling	2016				12/12		
Pär Boman	2016	■	x	Chairman	12/12	6/6	3/3
Maija-Liisa Friman	2016				11/12		
Annemarie Gardshol	2016				12/12		
Magnus Groth	2016	■			12/12		
Bert Nordberg	2016		x	x	12/12	6/6	3/3
Louise Svanberg	2016			x	11/12		3/3
Lars Rebien Sørensen	2017				12/12		
Barbara Milian Thoralfsson	2016		Chairman		12/12	6/6	

[1] Board meetings January 1–December 31, 2020.
■ = Dependent in relation to the company's major shareholder, AB Industrivärden.
■ = President of Essity, dependent in relation to the company and corporate management.

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Group notes, cont.

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Parent company notes

Group non-financial notes

Consolidated income statement IS

	Note	2020 SEKm	2020 EURm[1]	2019 SEKm	2019 EURm[1]	2018 SEKm	2018 EURm[1]
Net sales	B1, B2	121,752	11,626	128,975	12,193	118,500	11,565
Cost of goods sold	B3	–82,132	–7,843	–90,876	–8,591	–85,058	–8,301
Items affecting comparability – cost of goods sold	B2, B3	–181	–17	–243	–23	–1,437	–140
Gross profit		**39,439**	**3,766**	**37,856**	**3,579**	**32,005**	**3,124**
Sales, general and administration	B3	–22,088	–2,109	–22,319	–2,110	–20,570	–2,008
Items affecting comparability – sales, general and administration	B2, B3	122	11	–470	–45	62	6
Share of profits of associated companies and joint ventures	B3	94	9	60	6	63	6
Operating profit before amortization of acquisition-related intangible assets (EBITA)		**17,567**	**1,677**	**15,127**	**1,430**	**11,560**	**1,128**
Amortization of acquisition-related intangible assets	B3	–809	–77	–778	–73	–732	–71
Items affecting comparability – acquisition-related intangible assets	B2, B3	–	–	–	–	–69	–7
Operating profit		**16,758**	**1,600**	**14,349**	**1,357**	**10,759**	**1,050**
Financial income	E7	108	10	106	10	91	9
Financial expenses	E7	–1,066	–101	–1,415	–134	–1,248	–122
Profit before tax		**15,800**	**1,509**	**13,040**	**1,233**	**9,602**	**937**
Income taxes	B5	–4,053	–387	–2,828	–268	–1,050	–102
Profit for the period		**11,747**	**1,122**	**10,212**	**965**	**8,552**	**835**
Earnings attributable to:							
Owners of the Parent company		10,228	977	9,216	871	7,886	770
Non-controlling interests		1,519	145	996	94	666	65
Earnings per share – owners of the Parent company							
Earnings per share before and after dilution effects, SEK		14.56	1.4	13.12	1.2	11.23	1.1
Dividend per share, SEK		6.75[2]		6.25		5.75	
Average number of shares before and after dilution, million		702.3		702.3		702.3	

[1] Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.47 (10.58; 10.25) was used.
[2] Board proposal.

Consolidated statement of comprehensive income CI

SEKm	2020	2019	2018
IS **Profit for the period**	**11,747**	**10,212**	**8,552**
Other comprehensive income for the period			
Items that will not be reclassified to the income statement			
Actuarial gains/losses on defined benefit pension plans	–202	482	–1,036
Fair value through other comprehensive income	3	6	–5
Income tax attributable to components in other comprehensive income	279	52	176
	80	**540**	**–865**
Items that have been or may be reclassified subsequently to the income statement			
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	–9	–725	471
Transferred to profit or loss for the period	473	112	–378
Translation differences in foreign operations	–8,092	2,095	2,080
Gains/losses from hedges of net investments in foreign operations	1,504	–168	–122
Other comprehensive income from associated companies	–20	–14	23
Income tax attributable to components in other comprehensive income	–415	179	4
	–6,559	**1,479**	**2,078**
Other comprehensive income for the period, net of tax	**–6,479**	**2,019**	**1,213**
Total comprehensive income for the period	**5,268**	**12,231**	**9,765**
Total comprehensive income attributable to:			
Owners of the Parent company	4,588	11,006	8,893
Non-controlling interests	680	1,225	872

By operating segment	Net sales			Adjusted EBITA[1]		
SEKm	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Personal Care	46,095	48,340	45,342	7,161	6,746	6,354
Consumer Tissue	50,221	49,904	45,125	8,045	5,321	3,331
Professional Hygiene	25,418	30,731	28,017	3,317	4,463	3,841
Other	18	0	16	–897	–690	–591
Total	**121,752**	**128,975**	**118,500**	**17,626**	**15,840**	**12,935**

[1] Excluding items affecting comparability.

SEKm	Share capital	TE8:1 Reserves	Retained earnings	Equity attributable to owners of the Parent company	Non-controlling interests	Total equity
Value, January 1, 2018	**2,350**	**3,154**	**36,785**	**42,289**	**7,281**	**49,570**
Effect of changed accounting principle IFRS 9			**–7**	**–7**		**–7**
IS **Profit for the period**			**7,886**	**7,886**	**666**	**8,552**
Other comprehensive income for the period						
Items that will not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans[1]			–1,038	–1,038	2	–1,036
Fair value through other comprehensive income		–5		–5		–5
TE8:2 Income tax attributable to components in other comprehensive income		1	175	176		176
		–4	**–863**	**–867**	**2**	**–865**
Items that have been or may be reclassified subsequently to the income statement						
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		471		471		471
Transferred to profit or loss for the period		–378		–378		–378
Translation differences in foreign operations		1,876		1,876	204	2,080
Gains/losses from hedges of net investments in foreign operations		–122		–122		–122
Other comprehensive income from associated companies			23	23		23
TE8:2 Income tax attributable to components in other comprehensive income		5	–1	4		4
Other comprehensive income for the period, net of tax		**1,848**	**–841**	**1,007**	**206**	**1,213**
CI **Total comprehensive income for the period**		**1,848**	**7,045**	**8,893**	**872**	**9,765**
Private placement to non-controlling interests			3	3	2	5
Transferred to cost of hedged investments		1		1		1
CF OCF Dividend, SEK 5.75 per share[2]			–4,038	–4,038	–397	–4,435
BS **Value, December 31**	**2,350**	**5,003**	**39,788**	**47,141**	**7,758**	**54,899**

1) Including payroll tax.
2) Dividend of SEK 5.75 per share pertains to owners of the Parent company.

For further information, see Note E8 Equity on page 103.

Consolidated operating cash flow statement, supplementary disclosure OCF

	Note	2020 SEKm	2020 EURm[1]	2019 SEKm	2019 EURm[1]	2018 SEKm	2018 EURm[1]
IS Net sales		121,752	11,626	128,975	12,193	118,500	11,565
Operating expenses		-97,555	-9,315	–106,416	–10,060	–100,165	–9,776
Operating surplus		**24,197**	**2,311**	**22,559**	**2,133**	**18,335**	**1,789**
Adjustment for non-cash items		456	43	373	35	235	23
Operating cash surplus		**24,653**	**2,354**	**22,932**	**2,168**	**18,570**	**1,812**
Change in							
Inventories		–2,207	–211	–194	–18	–1,017	–99
Operating receivables		53	5	–1,949	–184	–344	–34
Operating liabilities		1,344	128	2,502	237	390	38
Change in working capital		**–810**	**–78**	**359**	**35**	**–971**	**–95**
Investments in non-current assets, net		–6,439	–615	–5,707	–540	–6,781	–660
Restructuring costs, etc.		–977	–93	–1,494	–141	–918	–90
Operating cash flow before investments in operating assets through leases		**16,427**	**1,568**	**16,090**	**1,522**	**9,900**	**967**
Investments in operating assets through leases		–409	–39	–451	–43	–	–
Operating cash flow		**16,018**	**1,529**	**15,639**	**1,479**	**9,900**	**967**
Financial items	E7	–958	–91	–1,309	–124	–1,157	–113
Income taxes paid	B5	–3,917	–374	–1,130	–107	–2,466	–241
Other		32	3	8	1	86	8
Cash flow from current operations		**11,175**	**1,067**	**13,208**	**1,249**	**6,363**	**621**
Acquisitions of Group companies and other operations	F6	–747	–71	–143	–13	–694	–68
Divestments of Group companies and other operations	F6	367	35	220	21	68	7
Cash flow from acquisitions and divestments		**–380**	**–36**	**77**	**8**	**–626**	**–61**
Cash flow before transactions with shareholders		**10,795**	**1,031**	**13,285**	**1,257**	**5,737**	**560**
Private placement to non-controlling interests		64	6	4	0	5	0
Dividend to non-controlling interests	E8	–423	–40	–336	–32	–397	–39
Dividend	E8	–4,390	–419	–4,038	–382	–4,038	–394
Net cash flow		**6,046**	**578**	**8,915**	**843**	**1,307**	**127**

Net debt	2020 SEKm	2020 EURm	2019 SEKm	2019 EURm	2018 SEKm	2018 EURm
Net debt, January 1[2]	**–50,940**	**–4,886**	**–54,404**	**–5,294**	**–52,467**	**–5,332**
Changed opening balance for net debt due to IFRS 16 Leases[1]	–	–	–3,786	–358	–	–
Net cash flow[1]	6,046	578	8,915	843	1,307	127
Remeasurements to equity[1]	–199	–19	488	46	–1,041	–102
Investments in non-operating assets through leases[1]	–399	–38	–434	–41	–	–
Translation differences	2,804	108	–1,719	–82	–2,203	13
Net debt, December 31[2]	**–42,688**	**–4,257**	**–50,940**	**–4,886**	**–54,404**	**–5,294**

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.47 (10.58; 10.25) was used.
2) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.03 (10.43; 10.28) was used for net debt.

Consolidated cash flow statement CF

	Note	2020 SEKm	2020 EURm[1]	2019 SEKm	2019 EURm[1]	2018 SEKm	2018 EURm[1]
Operating activities							
IS Operating profit		16,758	1,600	14,349	1,357	10,759	1,050
T:1 Adjustment for non-cash items		7,812	746	8,193	774	7,562	738
		24,570	**2,346**	**22,542**	**2,131**	**18,321**	**1,788**
Interest paid		–872	–83	–1,010	–95	–818	–80
Interest received		101	10	105	10	85	8
Other financial items		–205	–20	–420	–40	–408	–39
Change in liabilities relating to restructuring programs, etc.		–1,048	–100	–1,095	–104	–583	–57
Paid tax	B5	–3,917	–374	–1,130	–107	–2,466	–241
Cash flow from operating activities before changes in working capital		**18,629**	**1,779**	**18,992**	**1,795**	**14,131**	**1,379**
Cash flow from changes in working capital							
Change in							
Inventories		–2,207	–211	–194	–18	–1,017	–99
Operating receivables		53	5	–1,949	–184	–344	–34
Operating liabilities		1,344	128	2,502	237	390	38
Cash flow from operating activities		**17,819**	**1,701**	**19,351**	**1,830**	**13,160**	**1,284**
Investing activities							
Acquisitions of Group companies and other operations	F6	–668	–64	–143	–14	–461	–45
Divestments of Group companies and other operations	F6	65	6	5	0	68	7
T:2 Investments in intangible assets and property, plant and equipment		–6,587	–629	–5,908	–559	–6,882	–672
T:2 Paid interest capitalized in intangible assets and property, plant and equipment		–20	–2	–39	–4	–24	–2
Sale of property, plant and equipment		169	16	239	23	134	13
Loans granted to external parties		–54	–5	–62	–6	–	–
Repayment of loans from external parties		–	–	–	–	178	17
Cash flow from investing activities		**–7,095**	**–678**	**–5,908**	**–560**	**–6,987**	**–682**
Financing activities							
Private placement to non-controlling interests		64	6	4	0	5	0
Proceeds from borrowings		6,474	618	2,448	231	4,386	428
Repayment of borrowings		–10,100	–964	–11,708	–1,107	–7,295	–711
Dividend to non-controlling interests	E8	–423	–40	–336	–32	–397	–39
Dividend	E8	–4,390	–419	–4,038	–382	–4,038	–394
Cash flow from financing activities		**–8,375**	**–799**	**–13,630**	**–1,290**	**–7,339**	**–716**
Cash flow for the period		**2,349**	**224**	**–187**	**–20**	**–1,166**	**–114**
Cash and cash equivalents, January 1[2]		2,928	281	3,008	293	4,107	418
Translation differences in cash and cash equivalents		–295	–8	107	8	67	–11
Cash and cash equivalents, December 31[2]	E2	**4,982**	**497**	**2,928**	**281**	**3,008**	**293**

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.47 (10.58; 10.25) was used.
2) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.03 (10.43; 10.28) was used.

For information about the Group's liquidity reserve, refer to the Risk and risk management section on page 36.

T:1 Adjustment for non-cash items

SEKm	2020	2019	2018
Depreciation/amortization and impairment of non-current assets	7,671	7,529	6,708
Gain/loss on sale of assets	–44	24	35
Gain/loss on divestment and liquidation	–69	160	–69
Non-cash items relating to efficiency program	–19	128	669
Impact from settlement of pension liability	–187	–	–
Revaluation of previously owned shares upon acquisition	–	–	–225
Change in provision for ongoing competition case	–	–	95
Change in provision for tax of a non-recurring nature on non-current assets	–	–	–288
Impairment of participations in associated companies	–	–	278
Other	460	352	359
Total	**7,812**	**8,193**	**7,562**

T:2 Investments in intangible assets and property, plant and equipment including paid capitalized interest

SEKm	2020	2019	2018
Measures to raise the capacity level of operations (Strategic capital expenditures)	–2,675	–1,431	–2,424
Measures to uphold capacity level (Current capital expenditures)	–3,932	–4,516	–4,490
Investments through finance leases	–	–	8
Total	**–6,607**	**–5,947**	**–6,906**

Change in liabilities attributable to financing activities

SEKm	Value at January 1	Cash flow	Acquisi-tions/ divest-ments	Trans-lation differ-ences	Actuarial gains/ losses	Effect of IFRS 16 Leases	Other changes	Value at December 31
2020								
Non-current and current financial liabilities	52,062	–2,655	–205	–3,102	–	–	790[1)]	46,890
Provisions for pensions including surplus in funded pension plans	3,025	–532	–	3	202	–	–187[2)]	2,511
Assets for hedging financial liabilities included in cash flow from financing activities	–948	–439	–	–	–	–	–	–1,387
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	**54,139**	**–3,626**	**–205**	**–3,099**	**202**	**–**	**603**	**48,014**
2019								
Non-current and current financial liabilities	54,327	–8,498	–214	1,793	–	3,786	868[3)]	52,062
Provisions for pensions including surplus in funded pension plans	4,141	–659	–1	26	–482	–	–	3,025
Assets for hedging financial liabilities included in cash flow from financing activities	–846	–103	–	1	–	–	–	–948
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	**57,622**	**–9,260**	**–215**	**1,820**	**–482**	**3,786**	**868**	**54,139**
2018								
Non-current and current financial liabilities	54,838	–2,913	231	2,145	–	–	26[4)]	54,327
Provisions for pensions including surplus in funded pension plans	3,393	–420	2	130	1,036	–	–	4,141
Assets for hedging financial liabilities included in cash flow from financing activities	–1,269	424	–	–1	–	–	–	–846
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	**56,962**	**–2,909**	**233**	**2,274**	**1,036**	**–**	**26**	**57,622**

1) Other changes 2020 relate to change in accrued interest SEK –18m, change in liability related to financial leases in accordance with IFRS 16 of SEK 808m, of which SEK 409m relates to operating assets and SEK 399m to non-operating assets.
2) Other changes 2020 relate to the impact from settlement of pension liability SEK –187m.
3) Other changes 2019 relate to change in accrued interest SEK –17m, change in liability related to financial leases in accordance with IFRS 16 of SEK 885m, of which SEK 451m relates to operating assets and SEK 434m to non-operating assets.
4) Other changes 2018 relate to change in accrued interest of SEK 17m and an adjustment for a financial lease liability of SEK 9m.

Correlation between consolidated cash flow statement and operating cash flow statement, supplementary disclosure

SEKm	2020	2019	2018
Cash flow from operating activities			
Cash flow from operating activities	17,819	19,351	13,160
Adjustments			
Investments in non-current assets, net	–6,439	–5,707	–6,781
Accrued interest	18	17	–17
Investments in operating assets through leases	–409	–451	–
Impact from settlement of pension liability	187	–	–
Other	–1	–2	1
Cash flow from current operations according to consolidated operating cash flow statement	**11,175**	**13,208**	**6,363**
Cash flow from investing activities			
Cash flow from investing activities	–7,095	–5,908	–6,987
Adjustments			
Investments in non-current assets, net	6,439	5,707	6,781
Loans granted to external parties	54	62	–
Repayment of loans from external parties	–	–	–178
Net debt in acquired and divested companies	205	215	–234
Non-paid financial receivable upon divestment of Group companies	18	–	–
Investments through finance leases	–	–	–8
Other	–1	1	–
Cash flow from acquisitions and divestments according to consolidated operating cash flow statement	**–380**	**77**	**–626**
Cash flow for the period			
Cash flow for the period	2,349	–187	–1,166
Adjustments			
Repayment of borrowings	10,100	11,708	7,295
Proceeds from borrowings	–6,474	–2,448	–4,386
Loans granted to external parties	54	62	–
Repayment of loans from external parties	–	–	–178
Net debt in acquired and divested operations	205	215	–234
Non-paid financial receivable upon divestment of Group companies	18	–	–
Investments through finance leases	–	–	–8
Investments in operating assets through leases	–409	–451	–
Accrued interest	18	17	–17
Impact from settlement of pension liability	187	–	–
Other	–2	–1	1
Net cash flow according to consolidated operating cash flow statement	**6,046**	**8,915**	**1,307**

TRANSLATION OF FOREIGN CURRENCY

Functional currency and translation of foreign Group companies to the presentation currency

The functional currency of each Essity Group company is determined on the basis of the primary economic environment in which the respective company is active which, with a few exceptions, is the country in which the individual company operates. Essity's Parent company has Swedish kronor (SEK) as its functional currency. The financial statements of Group companies are translated to the Group's presentation currency, which is also SEK. Assets and liabilities are translated at the closing rate, while income and expenses are translated at the average rate for the respective period. Translation differences during the period on the Group's net assets are recognized in other comprehensive income in the translation reserve as a component of equity.

Exchange rate effects arising from financial instruments used to hedge foreign Group companies' net assets are recognized in the same manner in other comprehensive income in the translation reserve as a component of equity. On divestment, the accumulated translation differences on the foreign Group company and accumulated exchange rate effects on the financial instrument used to currency hedge the net assets in the company are recognized as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising in connection with the acquisition of a foreign Group company are translated from their functional currency to the presentation currency in the same way as the net assets in the company are translated.

TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCY

Transactions in foreign currency are translated to a functional currency using the rate prevailing on the transaction date. At the balance sheet date, monetary assets and liabilities in foreign currency are translated at the closing rate and any exchange rate effects are recognized in profit or loss. In cases where the exchange rate effect is related to the operations, the effect is recognized net in operating profit. Exchange rate effects pertaining to borrowing and financial investments are recognized as other financial items. If hedge accounting has been applied, for example, for cash flow hedges or hedging of net investments, the exchange rate effect is recognized in equity in other comprehensive income.

If a financial instrument has been classified as financial assets measured at fair value through comprehensive income, the portion of the value change pertaining to currency is recognized in profit or loss, any other unrealized changes are recognized in equity under other comprehensive income.

GOVERNMENT GRANTS

Government grants are measured at fair value when there is reasonable assurance that the grants will be received and Essity will comply with the conditions attached to them. Government grants related to acquisition of assets are recognized in the balance sheet by the grant reducing the carrying amount of the asset. Government grants received as compensation for costs are accrued and recognized in profit or loss during the same period as the costs. If the government grant or assistance is neither related to the acquisition of assets nor to compensation for costs, the grant is recognized as other income.

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES

Guidelines concerning non-IFRS performance measures for companies with securities listed on a regulated market in the EU have been issued by the ESMA (The European Securities and Markets Authority). These guidelines are to be applied to alternative performance measures not supported under IFRS.

The Annual and Sustainability Report refers to a number of performance measures not defined in IFRS. These performance measures are used to assist investors and company management to analyze the company's operations and objectives. These non-IFRS measures may differ from similar terms used by other companies.

A description of the various non-IFRS performance measures used as a complement to the financial information reported according to IFRS is presented below.

CALCULATION OF PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

RETURN MEASURES	**Return is a financial term that describes how much the value of an asset changes from an earlier point in time**	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-months rolling operating profit before amortization of acquisition-related intangible assets (EBITA) as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations.
Adjusted return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-months rolling operating profit before amortization of acquisition-related intangible assets (EBITA), excluding items affecting comparability, as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter, excluding items affecting comparability, multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations, excluding items affecting comparability.

SEKm	2020	2019	2018
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE			
EBITA	17,567	15,127	11,560
Items affecting comparability	59	713	1,375
Adjusted EBITA	17,626	15,840	12,935
Average capital employed	112,473	114,663	107,575
Adjusted return on capital employed, ROCE	**15.7%**	**13.8%**	**12.0%**

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES, CONT.

CAPITAL MEASURES	Shows how capital is utilized and the company's financial strength	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Return on equity	For the Group, return on equity is calculated as profit for the period as a percentage of average equity.	Shows, from a shareholder perspective, the return that is generated on the owners' capital that is invested in the company.
Adjusted return on equity	For the Group, adjusted return on equity is calculated as profit for the period, excluding items affecting comparability, as a percentage of average equity.	Shows, from a shareholder perspective, the return excluding items affecting comparability that is generated on the owners' capital that is invested in the company.
Equity	The equity reported in the consolidated balance sheet consists of taxed equity increased by the equity portion of the Group's untaxed reserves and non-controlling interests. The deferred tax liability in untaxed reserves has been calculated on the basis of the corporate tax rate that has been decided to apply when the reserves are expected to be realized.	Equity is the difference between the Group's assets and liabilities, which corresponds to the Group's equity contributed by owners and the Group's accumulated profits including the share of associated non-controlling interests.
Equity per share	Equity in relation to the average number of shares outstanding that exist in Essity Aktiebolag (publ).	A measure of the amount of equity that exists per outstanding share and is used for measuring the share against the share price.
Equity/assets ratio	Equity expressed as a percentage of total assets.	A traditional measure for showing financial risk, expressing the percentage of total assets that is financed by the owners.
Capital employed	The Group's and business areas' capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.	This measure shows the amount of total capital that is used in the operations and is thus one of the components for measuring the return from operations.

SEKm	2020	2019	2018
CAPITAL EMPLOYED			
Total assets	154,645	162,295	154,266
Financial assets	–9,530	–6,988	–5,181
Non-current, non-interest-bearing liabilities	–6,700	–7,269	–9,037
Current, non-interest-bearing liabilities	–32,385	–34,297	–30,745
Capital employed	**106,030**	**113,741**	**109,303**
CAPITAL EMPLOYED			
Personal Care	40,505	44,268	41,768
Consumer Tissue	45,283	47,345	44,915
Professional Hygiene	20,915	22,996	22,153
Other	–673	–868	467
Capital employed	**106,030**	**113,741**	**109,303**

Non-IFRS performance measure	Description	Reason for use of the measure
Capital turnover	Net sales for the year divided by average capital employed.	Shows in a clear manner how effectively capital is employed. Together with sales growth and the operating margin, the capital turnover ratio is a key measure for monitoring value creation.
Working capital	The Group's and business areas' working capital is calculated as current operating receivables less current operating liabilities.	This measure shows how much working capital is tied up in the operations and can be put in relation to sales to understand how effectively tied-up working capital is used.

SEKm	2020	2019	2018
WORKING CAPITAL			
Inventories	16,383	15,764	15,234
Trade receivables	17,825	19,864	18,687
Other current receivables	2,173	2,113	2,599
Trade payables	–14,791	–15,802	–15,911
Other current liabilities	–14,545	–14,998	–12,792
Other	101	–159	–249
Working capital	**7,146**	**6,782**	**7,568**

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES, CONT.

CAPITAL MEASURES, cont.	Shows how capital is utilized and the company's financial strength	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Net debt	The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less pension assets, cash and cash equivalents and interest-bearing current and non-current receivables.	Net debt is the most relevant measure for showing the company's total debt financing.

SEKm	2020	2019	2018
NET DEBT			
Surplus in funded pension plans	2,817	2,841	1,117
Non-current financial assets	738	694	634
Current financial assets	993	525	422
Cash and cash equivalents	4,982	2,928	3,008
Financial assets	**9,530**	**6,988**	**5,181**
Non-current financial liabilities	38,202	43,079	43,500
Provisions for pensions	5,328	5,866	5,258
Current financial liabilities	8,688	8,983	10,827
Financial liabilities	**52,218**	**57,928**	**59,585**
Net debt	**42,688**	**50,940**	**54,404**

Non-IFRS performance measure	Description	Reason for use of the measure
Debt/equity ratio	Debt/equity ratio is expressed as net debt in relation to equity.	Shows financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.
Debt payment capacity, %	Debt payment capacity is expressed as 12 months rolling cash earnings (see page 76) in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt.
Adjusted debt payment capacity, %	Adjusted debt payment capacity expressed as 12 months rolling adjusted cash earnings (see page 76) in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.
Net debt/EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA.	A financial measure that shows the company's capacity to repay its debt.
Net debt/Adjusted EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA, excluding items affecting comparability.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.
Interest coverage ratio	Calculated on a net basis, according to which operating profit is divided by financial items.	Helps to show the company's capacity to cover its interest expenses.

SEKm	2020	2019	2018
Debt/equity ratio, multiple	0.67	0.81	0.99
Debt payment capacity, %	46	38	25
Adjusted debt payment capacity, %	45	40	27
Net debt/EBITDA	1.75	2.33	3.11
Net debt/Adjusted EBITDA	1.76	2.25	2.96

PERFORMANCE MEASURES	Various types of performance measures and margin measures expressed as a percentage of sales	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Organic net sales	Underlying change in net sales compared with the preceding period attributable to changed volume, price or product mix excluding changes attributable to exchange rate effects, acquisitions and divestments.	This measure is of major importance for management in its monitoring of underlying net sales driven by changes in volume, price of product mix for comparable units between different periods.

SEKm	2020	2019	2018
ORGANIC NET SALES			
Personal Care			
Organic net sales	–19	1,549	1,213
Exchange rate effects	–2,248	1,623	1,173
Acquisitions/Divestments	22	–175	2,371
Recognized change	**–2,245**	**2,997**	**4,757**
Consumer Tissue			
Organic net sales	2,060	2,754	1,089
Exchange rate effects	–1,743	1,972	1,832
Acquisitions/Divestments	–	53	190
Recognized change	**317**	**4,779**	**3,111**
Professional Hygiene			
Organic net sales	–4,501	1,010	516
Exchange rate effects	–812	1,703	780
Acquisitions/Divestments	–	1	22
Recognized change	**–5,313**	**2,714**	**1,318**
Group			
Organic net sales	–2,439	5,297	2,868
Exchange rate effects	–4,806	5,299	3,785
Acquisitions/Divestments	22	–121	2,582
Recognized change	**–7,223**	**10,475**	**9,235**

ORGANIC NET SALES, %	2020	2019	2018
Previous period sales	128,975	118,500	109,265
Organic net sales	–2,439	5,297	2,868
Total organic sales for the period	126,536	123,797	112,133
Organic net sales, %	**–1.9%**	**4.5%**	**2.6%**

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES, CONT.

Non-IFRS performance measure	Description	Reason for use of the measure
Adjusted gross profit	Net sales minus cost of goods sold excluding items affecting comparability.	Gross profit shows the company's earnings before the effects of sales, general and administration. Adjusted gross profit excludes items affecting comparability.
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)	Calculated as operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets.	This measure is a complement to operating profit, as it shows the cash earnings from operations.
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)	Calculated as operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets excluding items affecting comparability.	This measure is a complement to operating profit, as it shows the cash earnings from operations adjusted for the impact of items affecting comparability.
Operating profit before amortization of acquisition-related intangible assets (EBITA)	Calculated as operating profit after depreciation, amortization and impairment of property, plant and equipment and intangible assets but before amortization and impairment of acquisition-related intangible assets.	The measure is a good complement to enable earnings comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth.
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)	Calculated as operating profit after depreciation, amortization and impairment of property, plant and equipment and intangible assets but before amortization and impairment of acquisition-related intangible assets, excluding items affecting comparability.	The measure is a good complement to enable earnings comparisons with other companies, regardless of whether business activities were based on acquisitions or organic growth, and is also adjusted for the impact of items affecting comparability.

SEKm	2020	2019	2018
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)			
Operating profit	16,758	14,349	10,759
Amortization of acquisition-related intangible assets	809	778	732
Depreciation/amortization	5,618	5,815	5,443
Depreciation right-of-use assets	922	884	–
Impairment	125	79	19
Items affecting comparability, net of impairment	197	–27	445
Items affecting comparability, impairment of acquisition-related intangible assets	–	–	69
EBITDA	**24,429**	**21,878**	**17,467**
Items affecting comparability excluding depreciation/amortization and impairment	–138	740	930
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)	**24,291**	**22,618**	**18,397**

SEKm	2020	2019	2018
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)			
Operating profit	16,758	14,349	10,759
Amortization of acquisition-related intangible assets	809	778	732
Items affecting comparability, amortization of acquisition-related intangible assets	–	–	69
Operating profit before amortization of acquisition-related intangible assets (EBITA)	**17,567**	**15,127**	**11,560**
EBITA margin	14.4%	11.7%	9.8%
Items affecting comparability, cost of goods sold	181	243	1,437
Items affecting comparability, sales, general and administration	–122	470	–62
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)	**17,626**	**15,840**	**12,935**
Adjusted EBITA margin	14.5%	12.3%	10.9%

B. SALES AND EARNINGS

B1. NET SALES – REVENUES FROM CONTRACTS WITH CUSTOMERS

AP KAA ACCOUNTING POLICIES AND KEY ASSESSMENTS AND ASSUMPTIONS

Essity applies IFRS 15 Revenue from Contracts with Customers that regulates revenue recognition and disclosure requirements for commercial agreements (contracts) with customers. The standard pertains to commercial agreements with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently.

Revenue recognition

Essity primarily generates revenues from the sale of finished products to, for example, the retail sector, industries and the healthcare sector. Revenue from sales of services occurs to a certain extent but only accounts for a small portion of the Group's sales. Essity's operations and sales are divided into various segments that sell different products in several regions. The product portfolio is diversified but the principles for revenue recognition are the same for all segments. For a description of the products, see the section on Essity's three business areas, Personal Care, Consumer Tissue and Professional Hygiene on pages 24–29. Essity's contracts with customers primarily comprise framework agreements without established minimum volumes, which means that a binding contract according to IFRS 15 criteria does not arise until the customer places an order.

Performance obligations and timing of revenue recognition

Essity's performance obligations in the contracts involve providing the goods specified in the contracts. The performance obligations are satisfied and the revenue recognized when control of the products is passed to the customer. The timing of when control is passed to the customer is determined by the delivery terms (Incoterms) applied in the contract. For most supply contracts, control is passed when the goods have been delivered to the customer's warehouse and the customer thereby can control the use and receive the benefits of the goods. Invoicing is normally done in connection with, or directly after, delivery and recognized at a specific point in time, no revenue is recognized over time. Essity has chosen to apply the practical expedient in IFRS 15 not to disclose the remaining performance obligations that have a term of less than one year.

Determination of transaction price

The transaction price primarily comprises the fixed price of the quantity sold less estimated volume discounts. Marketing subsidies and discount coupons that reduce Essity's recognized revenue exist to only a very limited extent.

The outcome of volume discounts is continuously assessed over the year and reduces recognized revenues in parallel with a provision being made that includes the estimated discount rate for each customer. At year end, the final volume discounts are determined on the basis of the actual sales volume and the provision is reduced in the following year when the discount is credited to the customer. Marketing subsidies entail that the customer receives a discount for carrying out marketing activities. In certain cases, Essity reimburses customers in the retail sector in accordance with contracts for loss of income due to discount vouchers used by consumers. The probable outcome of used discount vouchers and thus discounts provided during the reporting period is assessed and revised every time the accounts are closed. Customers have only limited rights to return products and past volumes of return products are low. Essity essentially grants customers no right of return except when the products are faulty. When the right arises to return goods sold, a liability is recognized for the repayment that is expected to be made and an asset is recognized for the right to recover the goods. Past experience is used to estimate the share of returns at the time of sale and revenue is only recognized for products that are not expected to be returned. The total transaction price is estimated at the amount that Essity deems will accrue to the company when the contract is signed with respect to volume discounts and any marketing subsidies, discount vouchers and returns. The transaction price is updated if the conditions forming the basis of the estimate have significantly changed.

Trade receivables

Once the goods and services have been delivered and control has been passed to the customer, a trade receivable is recognized since this is the point in time when the consideration becomes unconditional, only the passage of time is required for payment to be made.

Contract liabilities

Contract liabilities pertain to liabilities for volume discounts and advance payments from customers. Both items are recognized under Other current liabilities. Advance payments from customers are normally recognized as revenue in the subsequent fiscal year.

Assets that have arisen from expenses to fulfill contracts with customers

In the Professional Hygiene business area, Essity supplies dispensers to customers to fulfill contracts for delivery of the business area's other products, refer to page 28. Expenses for these dispensers are recognized as prepaid expenses under Other non-current assets since Essity expects to cover these expenses through the sale of the business area's other products. The dispensers are depreciated over three years according to the average term of the contract with customers. Recognition takes place in accordance with the rules in IFRS 15 since the expense is directly linked to securing contracts with customers. The rules on Property, Plant and Equipment in IAS 16 and IAS 2 Inventories are not deemed to be applicable since there are no economic benefits associated with the dispenser after it has been delivered to the customer.

The tables below show consolidated net sales broken down by operating segment: Personal Care, Consumer Tissue and Professional Hygiene. Net sales in geographic markets reflects the perspective – sold to, which is based on sales to the countries where Essity has its customers, known as its "footprint." See page 82 for further information.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
2020					
Revenue from contracts with customers					
Sale of finished products	46,089	50,221	25,370	18	121,698
Sale of services	6	–	48	–	54
IS Total revenues from contracts with customers	**46,095**	**50,221**	**25,418**	**18**	**121,752**
Geographic markets					
Europe	26,611	29,822	11,970	18	68,421
North America	4,862	34	10,087	–	14,983
Latin America	8,078	5,805	1,386	–	15,269
Asia	4,832	14,390	1,734	–	20,956
Other	1,712	170	241	–	2,123
IS Total revenues from contracts with customers	**46,095**	**50,221**	**25,418**	**18**	**121,752**

B1. REVENUE FROM CONTRACTS WITH CUSTOMERS, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
Product category					
Incontinence Products	20,934	–	–	–	20,934
Baby Care	8,650	–	–	–	8,650
Feminine Care	7,956	–	–	–	7,956
Medical Solutions	8,051	–	–	–	8,051
Consumer Tissue	–	50,221	–	–	50,221
Professional Hygiene	–	–	25,418	–	25,418
Other	504	–	–	18	522
IS Total revenues from contracts with customers	**46,095**	**50,221**	**25,418**	**18**	**121,752**

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
2019					
Revenue from contracts with customers					
Sale of finished products	48,325	49,904	30,726	0	128,955
Sale of services	15	–	5	–	20
IS Total revenues from contracts with customers	**48,340**	**49,904**	**30,731**	**0**	**128,975**
Geographic markets					
Europe	27,417	29,880	13,322	–	70,619
North America	5,173	5	13,158	–	18,336
Latin America	8,869	5,946	1,816	–	16,631
Asia	5,007	13,902	2,178	–	21,087
Other	1,874	171	257	0	2,302
IS Total revenues from contracts with customers	**48,340**	**49,904**	**30,731**	**0**	**128,975**
Product category					
Incontinence Products	21,205	–	–	–	21,205
Baby Care	9,183	–	–	–	9,183
Feminine Care	8,361	–	–	–	8,361
Medical Solutions	8,936	–	–	–	8,936
Consumer Tissue	–	49,904	–	–	49,904
Professional Hygiene	–	–	30,731	–	30,731
Other	655	–	–	0	655
IS Total revenues from contracts with customers	**48,340**	**49,904**	**30,731**	**0**	**128,975**

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
2018					
Revenue from contracts with customers					
Sale of finished products	45,333	45,125	28,011	16	118,485
Sale of services	9	–	6	–	15
IS Total revenues from contracts with customers	**45,342**	**45,125**	**28,017**	**16**	**118,500**
Geographic markets					
Europe	26,327	28,107	12,383	–	66,817
North America	4,788	22	11,837	–	16,647
Latin America	7,933	5,207	1,575	–	14,715
Asia	4,611	11,624	1,935	–	18,170
Other	1,683	165	287	16	2,151
IS Total revenues from contracts with customers	**45,342**	**45,125**	**28,017**	**16**	**118,500**
Product category					
Incontinence Products	19,355	–	–	–	19,355
Baby Care	9,079	–	–	–	9,079
Feminine Care	7,506	–	–	–	7,506
Medical Solutions	8,578	–	–	–	8,578
Consumer Tissue	–	45,125	–	–	45,125
Professional Hygiene	–	–	28,017	–	28,017
Other	824	–	–	16	840
IS Total revenues from contracts with customers	**45,342**	**45,125**	**28,017**	**16**	**118,500**

Trade receivables and contractual liabilities

SEKm	Note	2020	2019	2018
TE3:1 Trade receivables	E3	17,825	19,864	18,687
Contractual liabilities – bonuses and discounts to customers	D5	6,070	6,038	5,269
Contractual liabilities – advance payments from customers		158	157	96

Trade receivables increased by SEK 64m in 2020 due to acquisitions but declined by SEK 126m due to divestments. Overall, trade receivables declined by SEK 2,039m in 2020 due to reduced sales compared with previous year and exchange rate effects.

Assets that have arisen from expenses to fulfill contracts with customers

SEKm	2020	2019	2018
TE3:2 Value, January 1	585	538	484
Costs for the year	473	408	358
Depreciation	–375	–377	–344
Translation differences	–96	16	40
Value, December 31	**587**	**585**	**538**

B2. SEGMENT REPORTING

AP ACCOUNTING PRINCIPLES

Operating segments are recognized in a manner that complies with the internal reporting submitted to the chief operating decision maker. The chief operating decision maker is the function that is responsible for allocating resources and assessing the result of the operating segments. At Essity, this function has been identified as the company's President, who is responsible for and manages the day-to-day administration of the Group in accordance with the Board's guidelines and terms of reference. One Executive Vice President and the Executive Management Team support him in his work. Essity's three business areas, Personal Care, Consumer Tissue and Professional Hygiene, comprise the operating segments. For management purposes, the Group is organized into business areas based on their products.

Essity's offering in Personal Care includes Incontinence Products, Medical Solutions, Baby Care and Feminine Care. Products are sold under brands such as TENA, JOBST, Leukoplast, Libero, Libresse, Nosotras and Saba, and as retailer brands. Distribution channels are the retail trade, pharmacies, medical device stores, hospitals, distributors and care institutions and e-commerce.

Essity's offering in Consumer Tissue includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Products are sold under brands such as Edet, Lotus, Regio, Tempo, Vinda and Zewa. In Europe, Essity also sells products under retailer brands. Distribution channels for the products are the retail trade and e-commerce.

Essity's offering in Professional Hygiene comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products as well as service and maintenance. Essity also offers digital solutions, such as Internet of Things sensor technology that enables data-driven cleaning. Customers consist of companies and office buildings, universities, healthcare facilities, industries, restaurants, hotels, stadiums and other public venues. Distribution channels for the products consist of distributors and e-commerce.

Other operations comprise Group-wide functions and non-allocated tax.

Essity's business is an integrated operation in the form of a matrix organization with four business units (Health and Medical Solutions, Consumer Goods, Latin America and Professional Hygiene) and three global units (Global Manufacturing, Global Operational Services and Global Brand, Innovation and Sustainability). The business units have limited responsibility to impact operational costs, since the global units are responsible for production, planning, technology development, purchasing and product development.

No business areas were aggregated to form the aforementioned segments.

The President monitors the operating profit for the business areas separately in order to make decisions regarding the allocation of resources and how performance targets were achieved. The segments are evaluated based on operating profit, excluding items affecting comparability.

The tables below show parts of the consolidated balance sheet and income statement broken down by operating segment: Personal Care, Consumer Tissue and Professional Hygiene.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total Group
2020						
REVENUES						
IS TB2:2 **Net sales**	**46,095**	**50,221**	**25,418**	**18**		**121,752**
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**7,161**	**8,045**	**3,317**	**–897**	–	**17,626**
Amortization of acquisition-related intangible assets	–766	–6	–37	–	–	–809
Adjusted operating profit/loss per operating segment	**6,395**	**8,039**	**3,280**	**–897**	–	**16,817**
TB2:1 Items affecting comparability	–172	–7	–12	132	–	–59
IS **Operating profit/loss**	**6,223**	**8,032**	**3,268**	**–765**	**–**	**16,758**
IS Financial income						108
IS Financial expenses						–1,066
IS Tax expense for the period						–4,053
IS **Profit for the period**						**11,747**
OTHER DISCLOSURES						
Assets	55,778	61,928	28,723	–729	–1,429	144,271
BS Participations in joint ventures and associated companies	222	506	118	1	–	847
Unallocated financial assets				9,527		9,527
BS **Total assets**	**56,000**	**62,434**	**28,841**	**8,799**	**–1,429**	**154,645**
Net investments/acquisitions	– 2,485	–3,396	–1,259	–455	–	**–7,595**
Depreciation/amortization	–2,718	–2,675	–1,788	–168	–	–7,349
Expenses, in addition to depreciation/amortization, not matched by payments	2	17	439	–2	–	456
NET SALES BY REGION						
Europe	58%	59%	47%			56%
North America	11%	–	40%			12%
Latin America	17%	12%	5%			13%
Asia	10%	29%	7%			17%
Other	4%	–	1%			2%
Total	**100%**	**100%**	**100%**			**100%**
Mature markets	64%	53%	80%			63%
Emerging markets	36%	47%	20%			37%
Total	**100%**	**100%**	**100%**			**100%**

B2. SEGMENT REPORTING, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total Group
2019						
REVENUES						
IS TB2:2 **Net sales**	**48,340**	**49,904**	**30,731**	**0**		**128,975**
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**6,746**	**5,321**	**4,463**	**–690**	–	**15,840**
Amortization of acquisition-related intangible assets	–732	–7	–39		–	–778
Adjusted operating profit/loss per operating segment	**6,014**	**5,314**	**4,424**	**–690**	–	**15,062**
TB2:1 Items affecting comparability	–345	–118	–88	–162	–	–713
IS **Operating profit/loss**	**5,669**	**5,196**	**4,336**	**–852**	**–**	**14,349**
IS Financial income						106
IS Financial expenses						–1,415
IS Tax expense for the period						–2,828
IS **Profit for the period**						**10,212**
OTHER DISCLOSURES						
Assets	60,704	64,094	32,252	3,035	–5,756	154,329
BS Participations in joint ventures and associated companies	226	514	123	2	–	865
Unallocated financial assets				7,101		7,101
BS **Total assets**	**60,930**	**64,608**	**32,375**	**10,138**	**–5,756**	**162,295**
Net investments/acquisitions	–2,061	–2,432	–1,486	–322	–	–6,301
Depreciation/amortization	–2,772	–2,706	–1,852	–147	–	–7,477
Expenses, in addition to depreciation/amortization, not matched by payments	10	31	339	–7	–	373
NET SALES BY REGION						
Europe	57%	60%	43%			55%
North America	11%	–	43%			14%
Latin America	18%	12%	6%			13%
Asia	10%	28%	7%			16%
Other	4%	–	1%			2%
Total	**100%**	**100%**	**100%**			**100%**
Mature markets	63%	53%	80%			63%
Emerging markets	37%	47%	20%			37%
Total	**100%**	**100%**	**100%**			**100%**

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total Group
2018						
REVENUES						
IS TB2:2 **Net sales**	**45,342**	**45,125**	**28,017**	**16**		**118,500**
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**6,354**	**3,331**	**3,841**	**–591**	**–**	**12,935**
Amortization of acquisition-related intangible assets	–691	–5	–36	–	–	–732
Adjusted operating profit/loss per operating segment	**5,663**	**3,326**	**3,805**	**–591**	–	**12,203**
TB2:1 Items affecting comparability	–123	–1,046	–494	219	–	–1,444
IS **Operating profit/loss**	**5,540**	**2,280**	**3,311**	**–372**	–	**10,759**
IS Financial income						91
IS Financial expenses						–1,248
IS Tax expense for the period						–1,050
IS **Profit for the period**						**8,552**
OTHER DISCLOSURES						
Assets	57,688	61,020	30,768	5,071	–6,239	148,308
BS Participations in joint ventures and associated companies	196	486	94	1	–	777
Unallocated financial assets				5,181		5,181
BS **Total assets**	**57,884**	**61,506**	**30,862**	**10,253**	**–6,239**	**154,266**
Net investments/acquisitions	–2,521	–3,381	–1,337	–236	–	–7,475
Depreciation/amortization	–2,126	–2,287	–1,643	–119	–	–6,175
Expenses, in addition to depreciation/amortization, not matched by payments	29	36	194	–24	–	235
NET SALES BY REGION						
Europe	58%	62%	44%			56%
North America	11%	–	42%			14%
Latin America	17%	12%	6%			13%
Asia	10%	26%	7%			15%
Other	4%	–	1%			2%
Total	**100%**	**100%**	**100%**			**100%**
Mature markets	64%	56%	81%			65%
Emerging markets	36%	44%	19%			35%
Total	**100%**	**100%**	**100%**			**100%**

B2. SEGMENT REPORTING, CONT.

TB2:1 Items affecting comparability allocated by business segment

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other	Total
2020					
Items affecting comparability – cost of goods sold	–104	–28	–49	–	–181
Items affecting comparability – sales, general and administration	–68	21	37	132	122
Total	**–172**	**–7**	**–12**	**132**	**–59**
2019					
Items affecting comparability – cost of goods sold	–123	–62	–58	–	–243
Items affecting comparability – sales, general and administration	–222	–56	–30	–162	–470
Total	**–345**	**–118**	**–88**	**–162**	**–713**
2018					
Items affecting comparability – cost of goods sold	–157	–812	–468	–	–1,437
Items affecting comparability – sales, general and administration	116	–248	–26	220	62
Items affecting comparability – acquisition-related intangible assets	–82	14	–	–1	–69
Total	**–123**	**–1,046**	**–494**	**219**	**–1,444**

Assets and liabilities: The assets included in each operating segment comprise all operating assets used in the operating segment, primarily trade receivables, inventories and non-current assets after deduction for operating liabilities and provisions. Most of the assets are directly attributable to each operating segment. Assets that are common to two or more operating segments are allocated among the operating segments.

Internal sales: No internal sales are carried out between the segments. Production in shared facilities is allocated among the segments already at the operational reporting stage.

Customers: Essity had no customers in 2020, 2019 or 2018 from which it generated income that accounted for more than 10% of the company's net sales. Essity's ten largest customers account for 22.5% (23.7; 23.6) of the company's sales.

B2a. SEGMENT REPORTING, CONT.

TB2:2 Group by country	Net sales – sold to[1]						Net sales – sold by[1]					
	2020		2019		2018		2020		2019		2018	
	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Sweden	**3,049**	**2.5**	**2,774**	**2**	**2,636**	**2**	**3,485**	**2.9**	**3,338**	**3**	**3,143**	**2**
EU excl. Sweden												
Germany	13,672	11.2	13,884	11	13,115	11	14,266	11.7	14,544	12	13,713	12
France	10,074	8.3	10,621	8	10,234	9	10,270	8.4	10,859	9	10,491	9
Spain	5,451	4.5	6,004	5	6,005	5	5,593	4.6	6,103	5	6,087	5
Netherlands	3,985	3.3	3,966	3	3,696	3	4,128	3.4	4,121	3	3,892	3
Italy	3,344	2.7	3,762	3	3,541	3	3,616	3.0	4,028	3	3,907	3
Austria	1,967	1.6	1,911	2	1,824	2	2,168	1.8	2,114	2	2,003	2
Belgium	1,700	1.4	1,719	1	1,589	1	1,795	1.5	1,832	1	1,696	1
Finland	1,639	1.3	1,609	1	1,531	1	1,653	1.4	1,606	1	1,520	1
Denmark	1,407	1.2	1,280	1	1,151	1	1,447	1.2	1,246	1	1,098	1
Hungary	1,067	0.9	1,100	1	1,057	1	1,148	0.9	1,169	1	1,075	1
Poland	976	0.8	1,032	1	918	1	1,035	0.8	1,111	1	971	1
UK[2]	749	0.6	9,279	7	8,421	7	761	0.6	9,394	7	8,492	7
Czech Republic	697	0.6	698	1	633	1	687	0.6	668	1	607	1
Ireland	577	0.5	564	1	502	0	507	0.4	494	1	430	1
Greece	528	0.4	494	1	536	1	306	0.2	328	0	345	0
Romania	415	0.3	442	0	377	0	393	0.3	384	0	346	0
Portugal	402	0.3	414	0	392	0	335	0.3	352	0	332	0
Croatia	330	0.3	357	0	318	0	–	–	–	–	–	–
Slovakia	328	0.3	305	0	270	0	474	0.4	476	0	479	1
Lithuania	236	0.2	230	0	206	0	236	0.2	230	0	206	0
Rest of EU excl. Sweden	733	0.6	767	1	709	1	336	0.3	355	0	296	0
Total EU excl. Sweden	**50,277**	**41.3**	**60,438**	**48**	**57,025**	**48**	**51,154**	**42.0**	**61,414**	**48**	**57,986**	**49**
Rest of Europe												
UK[2]	8,234	6.8	–	–	–	–	8,369	6.9	–	–	–	–
Russia	2,862	2.3	3,380	3	3,225	3	3,060	2.5	3,613	3	3,440	3
Switzerland	1,588	1.3	1,448	1	1,347	1	1,540	1.2	1,398	1	1,295	1
Norway	1,321	1.1	1,344	1	1,271	1	1,304	1.1	1,269	1	1,211	1
Ukraine	399	0.3	418	0	338	0	352	0.3	369	0	298	0
Turkey	262	0.2	378	0	556	1	280	0.2	411	0	601	1
Rest of Europe excl. EU	429	0.4	439	0	419	0	–	–	–	–	–	–
Total Rest of Europe	**15,095**	**12.4**	**7,407**	**5**	**7,156**	**6**	**14,905**	**12.2**	**7,060**	**5**	**6,845**	**6**
TOTAL EUROPE	**68,421**	**56.2**	**70,619**	**55**	**66,817**	**56**	**69,544**	**57.1**	**71,812**	**56**	**67,974**	**57**
North America												
USA	13,016	10.7	16,132	12	14,617	12	12,880	10.6	16,104	12	14,681	12
Canada	1,962	1.6	2,198	2	2,024	2	1,987	1.6	2,227	2	2,046	2
Rest of North America	5	0.0	6	0	6	0	–	–	–	–	–	–
TOTAL NORTH AMERICA	**14,983**	**12.3**	**18,336**	**14**	**16,647**	**14**	**14,867**	**12.2**	**18,331**	**14**	**16,727**	**14**
Latin America												
Mexico	5,754	4.7	6,051	5	4,822	4	6,250	5.1	6,655	5	5,355	5
Colombia	3,594	3.0	4,144	3	3,955	3	3,750	3.1	4,317	4	4,155	4
Ecuador	1,505	1.3	1,652	1	1,510	1	1,487	1.2	1,623	1	1,486	1
Chile	879	0.7	991	1	1,018	1	883	0.7	1,000	1	1,013	1
Peru	558	0.5	590	1	462	1	550	0.5	581	1	425	0
Brazil	526	0.4	637	1	606	1	526	0.4	637	1	605	1
Costa Rica	486	0.4	513	0	476	1	588	0.5	535	0	472	0
Dominican Republic	442	0.4	483	0	431	0	442	0.4	482	0	419	0
Argentina	351	0.3	381	0	374	0	369	0.3	395	0	386	0
Nicaragua	171	0.1	185	0	172	0	–	–	–	–	–	–
Rest of Latin America	1,003	0.8	1,004	1	889	1	367	0.3	324	0	235	0
TOTAL LATIN AMERICA	**15,269**	**12.6**	**16,631**	**13**	**14,715**	**13**	**15,212**	**12.5**	**16,549**	**13**	**14,551**	**12**
Asia												
China	16,021	13.2	15,887	12	13,542	11	16,421	13.5	16,212	12	13,687	11
Malaysia	1,762	1.4	1,740	1	1,544	1	2,055	1.7	2,086	2	1,858	2
Japan	1,003	0.8	1,065	1	852	1	646	0.5	725	1	699	1
Taiwan	388	0.3	370	1	364	1	398	0.3	382	0	373	1
Singapore	321	0.3	283	0	240	0	263	0.2	234	0	202	0
India	153	0.1	234	0	222	0	155	0.1	235	0	219	0
Rest of Asia	1,308	1.1	1,508	1	1,406	1	663	0.6	737	1	670	1
TOTAL ASIA	**20,956**	**17.2**	**21,087**	**16**	**18,170**	**15**	**20,601**	**16.9**	**20,611**	**16**	**17,708**	**16**
Rest of the world												
South Africa	263	0.2	344	1	326	1	352	0.3	457	0	435	0
Tunisia	233	0.2	263	0	262	0	451	0.4	497	0	447	0
Libya	172	0.1	195	0	142	0	–	–	–	–	–	–
Morocco	147	0.1	166	0	139	0	70	0.1	78	0	68	0
Other Rest of the world	1,308	1.1	1,334	1	1,282	1	655	0.5	640	1	590	1
TOTAL REST OF THE WORLD	**2,123**	**1.7**	**2,302**	**2**	**2,151**	**2**	**1,528**	**1.3**	**1,672**	**1**	**1,540**	**1**
Total Group	**121,752**	**100.0**	**128,975**	**100**	**118,500**	**100**	**121,752**	**100.0**	**128,975**	**100**	**118,500**	**100**

1) Net sales have been recognized from two perspectives. The first column "Net sales – sold to" is based on sales to the countries where Essity has its customers, or Essity's "footprint". The second column "Net sales – sold by" takes the perspective of IFRS 8, meaning revenue from external customers where the company is domiciled and in all other countries from which the company receives revenues.
2) The UK is included in the group EU excl. Sweden up to and including January 2020. Following its exit from the EU, the UK is included in the group Rest of Europe as of February 2020.

B3. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function

SEKm	2020	2019	2018
IS Cost of goods sold	–82,132	–90,876	–85,058
IS Sales, general and administration	–22,088	–22,319	–20,570
IS Share of profits of associated companies and joint ventures	94	60	63
IS Amortization of acquisition-related intangible assets	–809	–778	–732
IS TB3:1 Items affecting comparability	–59	–713	–1,444
Total	**–104,994**	**–114,626**	**–107,741**

Refer also to the Description of costs section on page 138.

Operating expenses by type of cost

SEKm	Note	2020	2019	2018
TB3:2 Other income		1,066	1,028	897
Change in inventory of finished products and products in progress[1)]		87	–962	196
Raw materials and consumables[1)]		–41,384	–43,800	–43,771
Personnel costs[1)]	C1	–22,914	–23,888	–22,021
TB3:3 Other operating expenses[1)]		–34,318	–39,399	–36,412
Amortization of intangible assets[1)]	D1	–1,140	–1,111	–1,049
Depreciation of property, plant and equipment[1)]	D2, G2	–6,209	–6,366	–5,126
Impairment of intangible assets[1)]	D1	–54	–19	–105
Impairment of property, plant and equipment[1)]	D2	–276	–152	–428
Reversal of impairment of property, plant and equipment[1)]	D2	8	119	–
Share in profits of associated companies and joint ventures[1)]		71	84	–215
Revaluation of previously owned shares in associated companies[1)]	F6	–	–	225
Gain/loss on divestment and liquidation[1) 2)]		69	–160	68
Total		**–104,994**	**–114,626**	**–107,741**

1) Including items affecting comparability.
2) Including transaction costs and reversal of realized translation differences in divested companies to profit or loss.

TB3:1 Items affecting comparability

Distribution of items affecting comparability by type of cost

SEKm	2020	2019	2018
Impairment of inventory of finished products and products in progress, net	–9	–70	–61
Impairment of trade receivables	–	–10	–
Personnel costs	187	–445	–700
Other operating expenses	–86	–79	–183
Impairment of intangible assets, net	–54	–16	–105
Impairment of property, plant and equipment, net	–143	43	–410
Share in profits of associated companies from impairment and divestments	–23	24	–278
Revaluation of previously owned shares in associated companies	–	–	225
Gain/loss on divestment and liquidation	69	–160	68
Total	**–59**	**–713**	**–1,444**

Distribution of items affecting comparability

SEKm	2020
Gain from settlement of defined benefit pension liability	187
Gain/loss on divestment and liquidation	69
Costs for restructuring measures, Russia among other countries	–198
Increase of previous provision for legal disputes	–80
Other	–37
Total	**–59**

Distribution of items affecting comparability, previous periods

SEKm	2019
Restructuring costs relating to the Group-wide cost-savings program	–409
Costs for other restructuring programs	–181
Transfer to profit or loss of realized translation differences relating to divested and liquidated companies	–178
Other	55
Total	**–713**

SEKm	2018
Costs for restructuring measures at production facilities of Professional Hygiene and Consumer Tissue	–1,222
Impairment in the associated company Asaleo Care Ltd.	–278
Restructuring costs relating to the Group-wide cost-savings program	–131
Dissolution of reserve for foreign tax	288
Increase in participations in joint venture in Latin America	165
Other	–266
Total	**–1,444**

TB3:2 Other income

SEKm	2020	2019	2018
Sales not included in core operations	1,066	1,028	897
Total	**1,066**	**1,028**	**897**

Other income includes rental income, which is recognized in the period covered by the rental contract, royalties and similar items, which are recognized in accordance with the implied financial effect of the contract.

TB3:3 Distribution of other operating expenses

SEKm	2020	2019	2018
Transport expenses	–9,107	–9,360	–8,290
Energy costs[1)]	–4,493	–5,125	–4,775
Purchased finished goods for resale	–2,564	–6,811	–5,144
Marketing costs	–6,745	–6,604	–6,031
Repairs and maintenance	–2,966	–2,927	–2,546
IT, telephony and lease of premises[2)]	–974	–903	–1,633
Other operating expenses, production	–3,759	–4,092	–3,919
Other operating expenses, distribution, sales and administration	–3,516	–3,481	–3,674
Other	–194	–96	–400
Total	**–34,318**	**–39,399**	**–36,412**

1) After deduction for revenues from energy in the amount of SEK 186m (184; 327).
2) As of 2019, leases are recognized in accordance with the new accounting standard IFRS 16 Leases. This means that lease payments from 2019 are recognized as depreciation and interest expenses rather than lease payments in IT, telephony and lease of premises, which is why the item has decreased.

Other disclosures

Exchange rate effects had a negative impact of SEK –11m (–70; –186) on operating profit.

Other disclosures[1)]

SEKm	2020	2019	2018
Government grants received[2)]	241	47	55
Research and development	–1,559	–1,485	–1,320

1) These items are included in the tables above in Note B3 under the respective type of cost.
2) The increase in government grants received for 2020 pertains mainly to grants received in China related to the COVID-19 pandemic.

B4. AUDITING EXPENSES

Auditing expenses

SEKm	2020	2019	2018
EY			
Audit assignments	–69	–70	–64
Auditing activities other than the audit assignment	–2	–2	–2
Tax consultancy services	–2	–2	–1
Other assignments	–1	–3	–3
Total EY	**–74**	**–77**	**–70**
Other auditors			
Audit assignments	–15	–18	–17
Tax consultancy services	–14	–10	–5
Other assignments	–2	–8	–9
Total other auditors	**–31**	**–36**	**–31**
Total	**–105**	**–113**	**–101**

B5. INCOME TAXES

AP ACCOUNTING PRINCIPLES

The Group's tax expense comprises current tax and deferred tax.

Current tax is calculated on the taxable profit for the period based on the tax rules prevailing in the countries where the Group operates. Since taxable profit excludes costs that are not tax deductible and income that is not taxable, this is differentiated from profit before tax in profit or loss. Current tax also includes adjustments relating to recognized current tax from prior periods. Taxation at source on intra-Group transactions and interest attributable to income tax are also recognized as current income tax.

Deferred tax is calculated based on temporary differences between the carrying amounts and the tax base values of assets and liabilities and for tax loss carryforwards and other unutilized tax deductions where it is probable that these can be utilized against future taxable profits. Deferred taxes are measured in the balance sheet at their nominal amount and based on the tax rates enacted or substantively enacted on the balance sheet date. Deferred tax is not calculated on the initial recognition of goodwill or when an asset or liability is recognized for the first time, provided that the asset or liability is not attributable to a business combination. Essity does not recognize any deferred tax liability regarding temporary differences on undistributed earnings from shares in subsidiaries, joint ventures or associated companies, since Essity can control the reversal of the temporary differences and it is probable that such a reversal will not take place in the foreseeable future.

The recognition of tax effects is determined by the manner in which the underlying transaction is recognized. For items in profit or loss, the tax effect is recognized in profit or loss, with the same applying for transactions in other comprehensive income within equity, whereby the tax effect is subsequently recognized in other comprehensive income.

Tax liabilities and tax assets are recognized net when Essity has a legal right to offset.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

To determine the value of current and deferred tax assets and tax liabilities on the balance sheet date, it is necessary to make certain assessments and assumptions. Given that Essity operates globally, the company monitors future changes to tax legislations in addition to the development of the business climate in many countries. These factors could impact the company's future taxable profits and thus its possibility to utilize deferred tax assets on loss carryforwards, tax credits and other temporary differences. Furthermore, Essity evaluates tax assets and tax liabilities on a regular basis. If it is deemed probable that a chosen tax position will not be accepted by a tax authority or court, the tax liability is adjusted in accordance with the presumed outcome. Accordingly, a changed assessment of the probability of future taxable profits, or the probability that a tax authority or court will accept a chosen tax position, could have a positive or negative effect. The actual outcome may differ from the assessment that Essity has made.

Tax expense

Tax expense (+), tax income (–)

SEKm	2020	%	2019	%	2018	%
Current tax						
Income tax for the period	3,603	22.8	2,764	21.2	2,207	23.0
Adjustments for prior periods[1]	139	0.9	1,020	7.8	–1,324	–13.8
TB5:1 **Current tax expense**	**3,742**	**23.7**	**3,784**	**29.0**	**883**	**9.2**
Deferred tax						
Changes in temporary differences	467	3.0	275	2.1	226	1.9
Adjustments for prior periods[1]	–45	–0.3	–1,252	–9.6	37	–0.8
Revaluations	–111	–0.7	21	0.2	–96	0.6
TB5:1 TB5:2 TB5:3 **Deferred tax expense**	**311**	**2.0**	**–956**	**–7.3**	**167**	**1.7**
IS **Tax expense**	**4,053**	**25.7**	**2,828**	**21.7**	**1,050**	**10.9**

[1] During 2019, tax liabilities were reallocated between current tax and deferred tax, which resulted in an increase in current tax liabilities of SEK 936m and a corresponding impact on deferred tax income.

Explanation of tax expense

The difference between the recognized tax expense and expected tax expense is explained below. The expected tax expense is calculated based on profit before tax in each country multiplied by the tax rate in effect in the country.

Tax expense

SEKm	2020	%	2019	%	2018	%
IS Profit before tax	15,800		13,040		9,602	
IS Tax expense	4,053	25.7	2,828	21.7	1,050	10.9
Expected tax expense	3,789	24.0	3,036	23.3	2,144	22.3
Difference	**264**	**1.7**	**–208**	**–1.6**	**–1,094**	**–11.4**
The difference is explained by:						
Permanent differences between accounting and taxable result						
Effects of subsidiary financing[1]	57	0.4	–165	–1.3	–35	–0.4
Effects of acquisitions and divestments[2]	–19	–0.1	53	0.4	–106	–0.9
Taxes relating to profit-taking	32	0.2	27	0.2	42	0.4
Other permanent effects[3]	1	–0.0	102	0.8	272	2.3
Taxes related to prior periods[4]	94	0.6	–232	–1.8	–1,287	–14.5
Changes in the value of deferred tax assets[5]	44	0.3	37	0.3	60	2.1
Changes in tax rates[6]	55	0.3	–30	–0.2	–40	–0.4
Total	**264**	**1.7**	**–208**	**–1.6**	**–1,094**	**–11.4**

[1] The effects are principally attributable to financing of the operation in Germany. The years 2019 and 2018 pertain to the financing effects in the USA, Germany, France and Belgium (only 2018).

[2] The year 2019 relates essentially to divested operations in Turkey and Brazil. In the year 2018, the effects of acquisitions and divestments relate essentially to acquisitions and the revaluation of existing holdings in operations in Peru and Bolivia.

[3] The year 2019 primarily comprises BEAT effects in the USA of SEK 125m. For the year 2018 the effects relate to a non-deductible share in profit in Asaleo Care of SEK 97m primarily attributable to an impairment of assets, and dissolution effects of tax on non-current assets of SEK –57m.

[4] Taxes attributable to prior periods relate mainly to adjustments in Mexico, Germany and the Netherlands. For year 2019, the largest share pertains to the effect of a remeasurement of the tax amount on non-current assets in Mexico of SEK –253m. Year 2018 relates mainly to the effect of a tax dispute in Sweden totaling SEK –1,110m and a tax dispute in Denmark totaling SEK –417m in which the final rulings were in Essity's favor.

[5] The change in value of deferred tax assets relates mainly to uncapitalized tax loss carryforwards in Brazil of SEK 50m. The year 2019 relates mainly to uncapitalized tax loss carryforwards in Brazil of SEK 109m and an increase in a tax credit in Poland of SEK –68m. For the year 2018 the effects relate mainly to uncapitalized tax loss carryforwards in Brazil of SEK 98m and in Mexico of SEK 41m, as well as the increase in a tax credit in Poland of SEK –109m.

[6] Relates mainly to the revaluation of a deferred tax liability of SEK 87m concerning pension obligations in the UK.

B5. INCOME TAXES, CONT.

Current tax liability

Current tax liability (+), current tax asset (–)

SEKm	2020	2019	2018
Value, January 1	**1,687**	**–1,556**	**–216**
TB5:1 Current tax expense	3,742	3,784	883
OCF CF TB5:1 Paid tax	–3,917	–1,130	–2,466
Other changes from acquisitions, divestments and reclassifications[1]	40	670	240
Translation differences	–11	–81	3
Value, December 31	**1,541**	**1,687**	**–1,556**
BS of which current tax liability	2,301	2,432	570
BS of which current tax asset	760	745	2,126

[1] During 2019, tax risks were reclassified as tax liabilities from provisions in line with the interpretation of IFRIC 23 Uncertainty over Income Tax Treatments, which has taken effect.

B5:1 Tax by country

Tax expense (+), tax income (–)
Tax payments made by entities in different countries, paid tax (–), SEKm

Country	Current tax expense	Deferred tax expense	Total tax expense	Paid tax
Sweden	527	121	648	–123
Netherlands	521	63	584	–772
China	565	–34	531	–592
UK	125	179	304	–147
Germany	225	18	243	–260
France	136	47	183	–184
USA	148	33	181	–226
Colombia	173	–6	167	–240
Spain	114	–4	110	–210
Austria	80	11	91	–39
Poland	45	34	79	–58
Belgium	96	–19	77	–80
Italy	76	–1	75	–102
Ecuador	73	–2	71	–99
Russia	69	–10	59	–73
Finland	67	–9	58	–59
Canada	64	–6	58	0
Denmark	53	1	54	–53
Mexico	174	–123	51	–153
Japan	48	1	49	–40
Switzerland	46	0	46	–29
Slovakia	24	19	43	–31
Norway	38	1	39	–33
Peru	37	–2	35	–32
Other countries[1]	218	–1	217	–282
OCF CF IS **Total**	**3,742**	**311**	**4,053**	**–3,917**

[1] Other countries comprise several countries where the tax expense and tax payments for the respective countries are of a low amount.

TB5:2 Deferred tax liability

Deferred tax liability (+), deferred tax asset (–)

SEKm	Value, January 1	Deferred tax expense	Other changes[2]	Translation differences	Value, December 31
Intangible assets	5,874	1,295	158	–335	6,992
Property, plant and equipment	3,522	–1,640	–99	–198	1,585
Non-current financial assets	150	530	–143	–36	501
Current assets	–435	37	7	35	–356
Provisions	–646	–86	–140	119	–753
Liabilities	–1,618	–317	40	99	–1,796
Tax credits and tax loss carryforwards	–2,340	854	25	144	–1,317
Other	–501	–362	381	–47	–529
Total[1]	**4,006**	**311**	**229**	**–219**	**4,327**

[1] The net closing deferred tax liability comprises BS deferred tax assets of SEK 1,823m (2,539; 2,158) and BS deferred tax liabilities of SEK 6,150m (6,545; 7,272).
[2] Other changes mainly include deferred tax recognized directly in other comprehensive income within equity according to IAS 19 Employee Benefits of SEK –279 m and IFRS 9 Financial Instruments of SEK 419m, in addition to effects from acquisitions and divestments of SEK 89m.

TB5:3 Preceding periods' deferred tax liability (+), deferred tax asset (–), SEKm

YEAR	Value, January 1	Deferred tax expense	Other changes	Translation differences	Value, December 31
BS 2019	5,114	–956	–234	82	4,006
BS 2018	4,858	167	–167	256	5,114

Tax loss carryforwards

Tax credits and tax loss carryforwards for which deferred tax assets were recognized have been reported at the tax amount on the line Tax credits and tax loss carryforwards in TB5:2 in the amount of SEK –1,317m.

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 4,342m (6,412; 6,470), gross, at December 31, 2020.

The change in uncapitalized tax loss carryforwards for the period includes SEK 842m in exchange rate effects, SEK 573m that has expired and SEK 290m that was either utilized or capitalized. The tax value of uncapitalized tax loss carryforwards amounted to SEK 1,145m (1,791; 1,748). The expiry dates of these tax loss carryforwards are distributed as follows:

Tax loss carryforwards, gross, for which no deferred tax assets were recognized, SEKm

Year of maturity	2020	2019	2018
Within 1 year	13	90	48
2 years	43	62	305
3 years	13	53	17
4 years	66	99	100
5 years or more	426	1,108	1,499
Indefinite life	3,781	5,000	4,501
Total	**4,342**	**6,412**	**6,470**

C. EMPLOYEES

C1. PERSONNEL COSTS

The table below presents the Group's total personnel costs.

Personnel costs

SEKm	Note	2020	2019	2018
Salaries and remuneration		–16,228	–16,825	–15,403
TC2:1 of which Executive Management Team	C2	–103	–141	–124
of which Board	C3	–9	–9	–9
Pension costs		–1,215	–1,411	–1,433
of which defined benefit pension costs	C4	–240	–468	–528
of which other pension costs		–975	–943	–905
Other social security costs		–3,849	–4,194	–3,594
Other personnel costs		–1,622	–1,458	–1,591
Total[1)]		**–22,914**	**–23,888**	**–22,021**

1) Items affecting comparability of SEK 187m (–445; –700) are included in total personnel costs.

C2. REMUNERATION OF SENIOR EXECUTIVES

AP ACCOUNTING PRINCIPLES

Incentive programs

Essity has variable remuneration programs: Short Term Incentive (STI) and Long Term Incentive (LTI). Variable remuneration is capped at a specific percentage of fixed salary and is recognized as an expense and current liability, respectively, during the earning period in accordance with IAS 19 Employee Benefits. The programs are continuously evaluated and reported in the annual accounts. Payment is made in cash the year following the vesting period.

Description of incentive programs

The structure of the STI targets is related to the financial targets, or goals that contribute to the achievement of financial targets, such as operating cash flow, cost efficiency, EBITA margin, organic sales growth and consolidated profit before tax, as well as innovation goals.

The LTI goal is based on the performance of the company's B share, measured as the TSR (Total Shareholder Return) index compared with the MSCI Household Products Index, Consumer Staples, which contains a weighted index of competitors' and consumer companies' shares performance (TSR) over a three-year period, where the performance target is higher TSR for the company than the benchmark index (maximum outcome requires a 5% better outcome than the benchmark index).

Variable remuneration under LTI is paid in cash to employees and accordingly does not have any dilutive effect. Participants in the LTI program are to acquire shares in Essity for half of the LTI outcome paid after tax and to refrain from divesting these shares for a period of three years.

Annual General Meeting guidelines for remuneration of senior executives

These guidelines shall govern remuneration to Board directors, the President, vice presidents and other senior executives. The guidelines do not include remuneration decided upon by the General Meeting.

Remuneration principles

Successful implementation of the company's business strategy and the fostering of the company's long-term interests, including its sustainability, require that the company is able, through competitive remuneration on market terms, to recruit, incentivize and retain skilled employees. The total remuneration package must therefore be on market terms and competitive on the executive's field of profession, and must be related to the executive's responsibilities, powers and performance. The remuneration may comprise fixed salary, variable remuneration, other benefits and pension. The company's business strategy is presented in the company's Annual and Sustainability Report.

Variable remuneration

Variable remuneration shall be based on results relative to established short-term (one year) and long-term financial targets, targets which contribute thereto or to the performance of the company's share. Remuneration shall be aimed at promoting the company's business strategy and long-term interests, including its sustainability. Furthermore, variable remuneration shall be paid as cash remuneration and shall not be included in the basis for pension computation. The short-term element shall not exceed 100% of annual fixed salary and the long-term element shall not exceed 50% of annual fixed salary.

Short-term performance targets shall include organic growth, product development, earnings, cash flow, capital efficiency, sustainability, return, individual targets or a combination thereof.

Long-term performance targets shall be linked to the performance of the company's class B share measured as TSR index (Total Shareholder Return) compared with MSCI Household products Index, Consumer staples, which includes shares of competing companies, over a three-year period, where maximum outcome requires that the performance of the Essity share exceeds the benchmark index by more than 5% over a multi-year period. Payment of cash remuneration for achieved long-term performance targets shall also be subject to a requirement that one-half of such paid remuneration after tax shall be used for investment by the recipient in Essity shares. Such shares may not be divested during a period of three years from the date of purchase; among other things, to create a shared ownership interest between the participants in the program and the shareholders.

The company shall have the possibility to withhold payment of variable remuneration where necessary and possible according to law, provided there are special reasons for so doing and such a measure is necessary to meet the company's long-term interests, including its sustainability. Furthermore, the company shall have the possibility provided by law to demand repayment of any variable remuneration paid based on erroneous grounds.

Pension and other benefits

Pension benefits shall be contribution-defined, and the annual premium shall not exceed 40% of the fixed annual salary. The retirement age shall be 65.

Other, lesser benefits may include medical insurance, company car, fitness allowance as well as membership and service fees, training/education and other support.

A notice of termination period of not more than two years shall apply upon termination of the employment relationship where the termination is initiated by the company, and of not more than one year where the termination is initiated by the executive. Severance pay should not exist.

Decision-making process and reporting

Matters relating to remuneration to senior executives shall be addressed by the Board's Remuneration Committee and, with respect to the President, decided upon by the Board. The duties of the Remuneration Committee shall also include preparing board decisions regarding proposals for guidelines for remuneration to senior executives, performing oversight as well as monitoring and assessing the application thereof. When the Board or the Remuneration Committee addresses and decides on remuneration-related matters, senior executives may not be present insofar as the matter relates to them and, with respect to the calculation of variable remuneration, an audit certificate must be obtained before any decision is taken regarding payment. In the preparation of the remuneration guidelines, consideration has been given to salary and employment conditions for the company's other employees, such as information regarding total remuneration, components of the remuneration as well as the increase in remuneration and the rate of increase over time, and the company's equality of opportunity policy. The Board shall prepare a remuneration report.

Application of, and deviation from, the guidelines

The Board may decide to temporarily deviate from the guidelines, wholly or in part, if there are special reasons for so doing in an individual case and deviation is necessary to satisfy the company's long-term interests, including its sustainability. The duties of the Remuneration Committee include preparing board decisions on remuneration issues, including decisions regarding deviations from the guidelines. With respect to employment relationships governed by rules other than Swedish rules, appropriate adjustments shall take place with respect to pension benefits and other benefits to ensure compliance with such rules or local practice, whereupon the overarching purpose of these guidelines shall be attained as far as possible.

The guidelines shall not take precedence over mandatory terms or employment law legislation or collective agreements. Nor shall they apply to already executed agreements.

Company's application of guidelines

The company applied the guidelines approved by the AGM in the following manner.

Fixed salary

The fixed salary is to be in proportion to the individual's position and the authority and responsibilities this entails, as well as performance. It is set individually at a level that, combined with other remuneration, is assessed as a market rate and competitive in the labor market in which the executive works.

Variable remuneration

Variable remuneration of the CEO, Executive Vice President and Business Unit Presidents and equivalents is maximized to a total of 100% of the fixed salary. For two Business Unit Presidents, stationed in the Americas, the maximum outcome is 110–130%. The corresponding limit for other senior executives is 90–100%. The program for variable remuneration is divided into short-term and long-term portions. The short-term portion ("Short Term Incentive", or STI) for the CEO, Executive Vice President and Business Unit Presidents and equivalents may amount to a maximum of 50% of fixed salary. For the Business Unit Presidents, stationed in the Americas, the maximum outcome is 60–80% of the fixed salary, while the corresponding limit for other senior executives is 40–50%. The STI goals set for the Business Unit Presidents are mainly based on organic sales growth, EBITA margin, operating cash flow for each business unit and Group-wide cash flow goals and sustainability goals.

The goal for the CEO and others reporting directly to him is based primarily on organic sales growth, EBITA margin, operating cash flow, the Group's profit and sustainability goals. Furthermore, for certain senior executives, goals for cost efficiency and innovation also apply, accounting for 21% of the variable remuneration. The sustainability target, Science Based Targets Scope 1 and 2, which aims to reduce emissions of carbon dioxide in energy utilization and purchased electricity, accounts for 9% of the variable remuneration.

The long-term portion ("Long Term Incentive", or LTI) may amount to a maximum of 50% of the fixed salary. The senior executive is to invest half of the variable LTI compensation, after tax withholdings, in Essity shares. The shares may then not be sold before the end of the third year after the purchase of shares in the relevant LTI program.

Outcome, variable remuneration

For the CEO, Executive Vice President and Central Staff Managers, STI resulted in 32–40% of fixed salary for 2020. STI resulted in variable remuneration corresponding to 24–51% of fixed salary for the Business Unit Presidents. With the salary situation prevailing in 2020 with 12 senior executives, the maximum outcome of variable remuneration would entail a cost for the Group, excluding social security costs, of approximately SEK 38m.

The LTI target was not achieved for 2018–2020, resulting in no outcome for the CEO and other senior executives.

Other benefits

Other benefits pertain, in some cases, to a company car, commuter reimbursement and health insurance.

TC2:1 Remuneration and other benefits during the year 2020

SEK	Fixed salary	Variable remuneration[1]	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	15,000,000	5,670,000[2]	112,291	20,782,291
Other senior executives (11 people)	55,964,618	20,833,766[2]	5,611,119	82,409,503
Total	**70,964,618**	**26,503,766**	**5,723,410**	**103,191,794**

1) Variable remuneration covers the 2020 fiscal year but is paid in 2021.
2) Of which LTI program SEK 0.

Pension costs 2020[1]

SEK	
President and CEO Magnus Groth[2]	6,269,391
Other senior executives (11 people)[3]	17,146,081
Total	**23,415,472**

1) The pension costs pertain to the costs that affected profit for 2020, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 25,707,004.
3) Outstanding pension obligations amount to SEK 95,565,302.

Pension

The CEO has a defined contribution pension based on an annual payment, to be paid by the company, amounting to 40% of the employee's fixed salary, in addition to the agreed contribution for the basic pension benefits in the ITP plan (supplementary pensions for salaried employees), with retirement pension benefits limited to a maximum salary income of 7.5 income base amounts. The retirement age for the CEO is 65. Four other executives are covered by corresponding defined contribution pension benefits with an annual premium of approximately 30–40% and pension age of 65. Two senior executives in Sweden have a combined defined benefit and defined contribution plan. Five senior executives that are employed in companies outside Sweden are encompassed by defined contribution pension plans on local market-based terms.

Notice period and severance pay

The agreement with the CEO stipulates a period of notice of termination of two years if such notice is given by the company. The CEO has a corresponding right with a period of termination of one year. If notice is given by the company, the CEO is not obligated to serve during the notice period. The agreement has no stipulations with regard to severance pay. Between the company and other senior executives, a period of notice of termination of one to two years normally applies, if such notice is given by the company. The executive has a corresponding right with a period of notice of termination of six months to one year. The executive is normally expected to be available to the company during the notice period. The agreements have no stipulations with regard to severance pay.

Preparation and decision process for remuneration

During the year, the Remuneration Committee submitted recommendations to the Board regarding the principles for remuneration of senior executives. The recommendations encompassed the ratio between fixed and variable remuneration and the size of any salary increases. In addition, the Remuneration Committee expressed an opinion on the criteria for assessing variable remuneration and pension terms. The Board discussed the Remuneration Committee's proposal and decided on the basis of the Committee's recommendations. The remuneration of corporate management for the fiscal year was based on the Remuneration Committee's recommendation and, with regard to the CEO, decided by the Board. The executives concerned did not participate in remuneration matters pertaining to themselves. When it was deemed appropriate, the work of the Remuneration Committee was carried out with the support of external expertise.

TC2:1 Remuneration and other benefits during the year 2019

SEK	Fixed salary	Variable remuneration[1]	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth[2]	13,800,000	13,800,000[2]	110,732	27,710,732
Other senior executives (11 people)[3]	55,608,750	54,523,552[3]	3,156,703	113,289,005
Total	**69,408,750**	**68,323,552**	**3,267,435**	**140,999,737**

1) Variable remuneration covers the 2019 fiscal year but is paid in 2020.
2) Of which LTI program SEK 6,900,000.
3) Of which LTI program SEK 27,804,376.

C2. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Pension costs 2019[1)]

SEK	
President and CEO Magnus Groth[2)]	5,751,678
Other senior executives (11 people)[3)]	15,176,118
Total	**20,927,796**

1) The pension costs pertain to the costs that affected profit for 2019, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 24,062,615.
3) Outstanding pension obligations amount to SEK 84,529,681.

TC2:1 Remuneration and other benefits during the year 2018

SEK	Fixed salary	Variable remuneration[1)]	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	13,000,000	7,345,000[2)]	98,383	20,443,383
Other senior executives (13 people)[3)]	60,005,069	38,743,013[4)]	5,054,275	103,802,357
Total	**73,005,069**	**46,088,013**	**5,152,658**	**124,245,740**

1) Variable remuneration covers the 2018 fiscal year but is paid in 2019.
2) Of which LTI program SEK 6,500,000.
3) Includes remuneration to the former Senior Vice President, Group Function Sustainability and Public Affairs, who as a result of the restructuring of the Group is no longer a member of the Executive Management Team.
4) Of which LTI program SEK 36,502,537.

Pension costs 2018[1)]

SEK	
President and CEO Magnus Groth[2)]	5,443,050
Other senior executives (13 people)[3)]	18,115,299
Total	**23,558,349**

1) The pension costs pertain to the costs that affected profit for 2018, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 19,933,280.
3) Outstanding pension obligations amount to SEK 80,261,840.

Obligations in relation to former presidents and CEOs

For former presidents and CEOs, Essity has outstanding, non-funded obligations amounting to SEK 190m. These costs were recognized in previous years and comprise pension obligations that Essity assumed from Svenska Cellulosa Aktiebolaget in conjunction with the split of the Group.

C3. FEES TO BOARD MEMBERS IN THE PARENT COMPANY DURING THE YEAR

Remuneration to non-executive Board members of Essity Aktiebolag (publ) refers to the fees approved at the AGM on April 2, 2020 for the period until the next AGM in March 2021. No remuneration is paid to the President and CEO and other employees.

	Board fee			Audit Committee fee			Remuneration Committee fee			Total		
SEK	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Pär Boman (Chairman)	2,310,000	2,310,000	2,220,000	275,000	275,000	264,000	150,000	150,000	143,000	2,735,000	2,735,000	2,627,000
Ewa Björling	770,000	770,000	740,000							770,000	770,000	740,000
Maija-Liisa Friman	770,000	770,000	740,000							770,000	770,000	740,000
Annemarie Gardshol	770,000	770,000	740,000							770,000	770,000	740,000
Louise Svanberg	770,000	770,000	740,000				115,000	115,000	111,000	885,000	885,000	851,000
Bert Nordberg	770,000	770,000	740,000	275,000	275,000	264,000	115,000	115,000	111,000	1,160,000	1,160,000	1,115,000
Barbara Milian Thoralfsson	770,000	770,000	740,000	380,000	380,000	349,000				1,150,000	1,150,000	1,089,000
Lars Rebien Sørensen	770,000	770,000	740,000							770,000	770,000	740,000
Total	**7,700,000**	**7,700,000**	**7,400,000**	**930,000**	**930,000**	**877,000**	**380,000**	**380,000**	**365,000**	**9,010,000**	**9,010,000**	**8,642,000**

C4. REMUNERATION AFTER COMPLETION OF EMPLOYMENT

AP ACCOUNTING PRINCIPLES

Defined benefit pension plans

Defined benefit pension plans are characterized by the fact that payment is based on the period of employment and the employee's salary at, or just prior to, retirement. The actuarial and investment-related risks associated with defined benefit pension plans are carried by the company.

The defined benefit obligations are calculated annually by independent actuaries using the Projected Unit Credit Method. Calculations are based on actuarial assumptions. Actuarial assumptions comprise the company's best assessment of the variables that determine the final cost for providing the benefits. The obligation is measured at the present value of the anticipated future cash flows using a discount rate (see Key assessments and assumptions below). Actuarial gains and losses (remeasurements) are recognized directly in equity under other comprehensive income in the period in which they arise. The recognized cost for the defined benefit plans includes personnel costs, as well as net interest items. Net interest items comprise the discount rate calculated on the average net pension liability for the period, taking fee and remuneration payments into consideration. The difference between the calculated interest income (discount rate) on the plan assets and Essity's actual return on the plan assets is included in the remeasurement of the defined benefit net liability or net asset recognized in equity under other comprehensive income. Past service costs are recognized in profit or loss in the period in which they arise.

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, meaning plans with assets exceeding obligations, are recognized as a financial non-current asset provided they are not limited by the "asset ceiling" under IAS 19. Other pension plans, which are not fully funded or unfunded, are recognized as Provisions for pensions.

In certain countries, pension payments are subject to taxes or fees. In such cases, these are included in the calculation of the obligation for the defined benefit pension plans. These taxes or fees are recognized as an expense in profit or loss, except in cases where they are attributable to actuarial gains or losses, in which case they are recognized directly in equity under other comprehensive income.

Defined contribution pension plans

Plans where the employer's obligation is limited to the premiums the company has undertaken to pay are classified as defined contribution plans. In these plans, it is the employee who bears the investment risk, meaning the risk that the invested assets could be insufficient to generate the anticipated compensation. The Group's payments relating to defined contribution plans are recognized as an expense during the period the employees carry out the service to which the payment relates.

Other post-retirement benefits

Some Group companies provide post-retirement healthcare benefits. The obligation and anticipated costs for these benefits have been calculated and recognized in a similar manner to the defined benefit pension plans.

Severance pay

Severance pay is recognized as a payroll expense when the Group has an obligation to compensate employees whose employment was terminated early.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

The calculation of recognized expenses and provisions for defined benefit pension plans, where the size of the future compensation is unknown and payment will occur far in the future, is dependent on assumptions and assessments. Key assumptions and assessments include the discount rate, future salary increases, inflation and life expectancy. Essity determines the discount rate based primarily on AA-rated corporate bonds issued in the currency in which the payments will be made that match the duration of the obligations. If no such corporate bonds are available, government bonds or mortgage bonds are used. Inflation assumptions are based on a combination of central bank targets, implicit market expectations and long-term analyst forecasts. Assumptions regarding salary increases are based on market expectations and market research forecasts. Key actuarial assumptions are presented in TC4:5. The sensitivity of the recognized provision with respect to key actuarial assumptions is described in TC4:6.

Provisions for pensions and similar obligations

SEKm	2020	2019	2018
TC4:2 Defined benefit obligations	32,717	38,510	33,082
TC4:3 Fair value of plan assets	–31,260	–36,372	–29,648
TC4:4 Effect of asset ceiling	1,054	887	707
TC4:1 Provision for pensions, net	**2,511**	**3,025**	**4,141**

Surpluses in funded plans recognized as financial non-current assets amounted to BS SEK 2,817m (2,841; 1,117) on the balance sheet date and provisions for pensions totaled BS SEK 5,328m (5,866; 5,258). Defined benefit obligations include obligations in an amount of SEK 2,908m (2,889; 2,380) pertaining to unfunded plans.

Essity has both defined contribution and defined benefit pension plans in a number of Group companies. The most significant defined benefit pension plans in the respective countries are described below.

TC4:1 Provisions for pensions and similar obligations per country

SEKm Country	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
UK	15	9,266	8,394	17,675	–19,251		–1,576	19
Sweden	2,058	1,257	1,393	4,708	–3,723	1,054	2,039	20
Germany	2,542	741	1,558	4,841	–4,993		–152	17
USA	474	1,056	1,983	3,513	–2,949		564	12
Other	1,609	12	359	1,980	–344		1,636	12
Total	**6,698**	**12,332**	**13,687**	**32,717**	**–31,260**	**1,054**	**2,511**	

Netherlands
The plan was changed in 2020, thereby eliminating Essity's guarantees concerning funding levels for previous and future vesting. Elimination of the guarantees resulted in a reclassification of the pension commitment from defined benefit to defined contribution in accordance with IAS 19, and a gain from settlements of SEK 187m was recognized in items affecting comparability. Defined benefit obligations of SEK 5,488m and plan assets of SEK 5,301m have been deconsolidated after a one-off payment of SEK 167m was made to the pension fund.

UK
The plan is a defined benefit plan with contributions paid by the company. The plan is based on final salary and consists of retirement pension, beneficiaries' pension and disability pension. The plan was closed to new participants in July 2007 and closed for future accrual in September 2018. The plan is managed by an independent company and assets are held separately, according to UK law. Surpluses in the pension fund remain in the fund's assets but can be utilized in the form of premium discounts. The plan is obligated to meet the minimum funding level according to an agreement with the pension plan.

Costs for the period for defined benefit plans

SEKm	2020	2019	2018
Current service cost, after deduction for premiums paid by the employees	–428	–528	–589
Past service cost	–2	16	36
Pension-tax expense	–41	–36	–33
Remeasurement, net	–11	–26	9
Net interest income/expense	–34	–93	–83
Pension costs before effects of settlements	**–516**	**–667**	**–660**
Settlements	201	70	16
Pension costs after effects of settlements	**–315**	**–597**	**–644**

In 2020, the Dutch pension plan was changed, resulting in it being reclassified from defined benefit to defined contribution in accordance with IAS 19. A gain from settlements was recognized as an item affecting comparability in the amount of SEK 187m as a result of this.

Sweden
In Sweden, the defined benefit obligation is mainly covered by the ITP2 plan and executive pensions. The ITP2 plan (supplementary pensions for salaried employees) encompasses employees born before 1979 and is a defined benefit plan that provides retirement pension based on final salary, as a percentage of various salary intervals. The ITP2 plan is safeguarded by a fund, and the company may compensate itself using any surpluses in the plan assets. The pension plans for executives are largely retirement and beneficiaries' pension plans based on final salary and are closed to new participants and the liability largely comprises paid-up pension policies or pensions in payment. The pension plans for executives are largely unfunded and are credit-insured with PRI Pensionsgaranti.

Germany
In Germany, the defined benefit obligation comprises a number of different pension plans offering retirement pension, beneficiaries' pension and disability pension. Plans based on final salary exist but these are closed to new participants and the benefit depends on the length of service and final salary at retirement. Defined contribution plans are also offered in which the benefit depends on provisions made by the company and, in certain plans, even by the employee during the period of service, and guaranteed return on the provisions. The obligations are largely financed by two different funds and the company may, in certain instances, compensate itself using any surpluses in the plan assets. In 2020, minor pension obligations were settled through the payment of a one-off amount to the pension holders totaling SEK 9m, which reduced the pension liability by SEK 11m.

USA
In the USA, the defined benefit obligations comprise retirement pensions in which the premiums are paid by the company and the benefit is based on a standard amount per service year. Only one plan is still open for new accrual for about 200 employees. The benefits are financed via a pension fund that is obligated to meet the minimum legislated funding level. Surpluses in the pension fund can be utilized in the form of premium discounts. In 2020, healthcare benefits to pensioners have been settled in insurance by the company paying a one-off premium of SEK 17m, which reduced the pension liability by SEK 18m.

TC4:2 Defined benefit obligations

SEKm	2020	2019	2018
Value, January 1	**38,510**	**33,082**	**33,007**
Current service cost	429	540	601
Interest expense	608	895	811
Past service cost	2	–16	–36
Pension-tax expense	41	36	33
Settlements and transfers	–57	–293	–251
Reclassification	–5,488	–	–
Acquisitions and divestments	–	–1	2
Benefits paid	–1,323	–1,398	–1,445
Pension taxes paid	–11	–10	–12
Remeasurement: financial assumptions	3,345	4,668	–1,102
Remeasurement: demographic assumptions	–248	37	–26
Remeasurement: experience-based assumptions	–567	–538	304
Pension taxes pertaining to remeasurement	–49	68	69
Translation differences	–2,475	1,440	1,127
Value, December 31	**32,717**	**38,510**	**33,082**

Reclassification of SEK 5,488m in 2020 pertains to the deconsolidation of the former defined benefit obligations attributable to the Dutch pension plan.

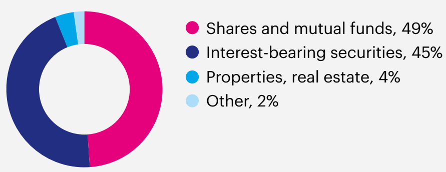
Remeasurements in the defined benefit obligations comprise changes in financial assumptions, such as changes to the discount rate, any changes in demographic assumptions and experience-based deviations. Experience-based deviations include for example unexpectedly high or low employee turnover or salary increases.

TC4:3 Plan assets

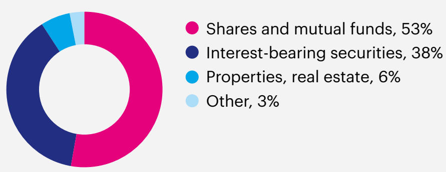
SEKm	2020	2019	2018
Fair value, January 1	**–36,372**	**–29,648**	**–30,418**
Interest income	-586	–818	–747
Contributions by plan participants	–1	–12	–12
Contributions by the employer	–1,048	–1,292	–1,019
Benefits paid, excluding settlements	1,312	1,396	1,368
Benefits paid for settlements	54	253	226
Reclassification	5,301	–	–
Return in excess of recognized interest income	–2,434	–4,881	1,909
Administrative expenses for pension obligations	36	44	42
Translation differences	2,478	–1,414	–997
Fair value, December 31	**–31,260**	**–36,372**	**–29,648**

Reclassification of SEK 5,301m in 2020 pertains to the deconsolidation of the plan assets attributable to the Dutch pension plan.

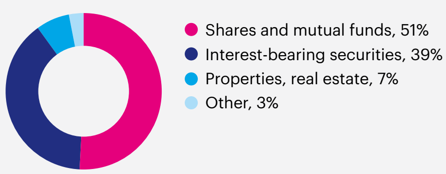
The plan assets are distributed according to the following classes of assets, 2020:



The plan assets are distributed according to the following classes of assets, 2019:



The plan assets are distributed according to the following classes of assets, 2018:



At the balance sheet date 94% (93;92) of the plan assets were traded on active markets for which market quotations were used for the valuation. As in the preceding year, no financial instruments issued by Essity are included in the fair value of plan assets at December 31, 2020.

TC4:4 Effect of asset ceiling

SEKm	2020	2019	2018
Value, January 1	**887**	**707**	**804**
Interest expense	12	16	19
Other changes to asset ceiling	155	164	–116
Value, December 31	**1,054**	**887**	**707**

Effect of asset ceiling pertains to funds in one Swedish foundation that can be used for possible future undertakings for early retirement for certain categories of employees.

TC4:5 Principal actuarial assumptions

	Sweden	UK	Germany	Netherlands[1)]	USA
2020					
Discount rate	0.83	1.37	0.38	N/A	2.56
Expected salary increase rate	2.75	N/A	2.75	N/A	N/A
Expected inflation	1.75	3.00	1.50	N/A	N/A
Life expectancy, men[2)]	22	21	20	N/A	20
Life expectancy, women[2)]	25	24	24	N/A	21
2019					
Discount rate	1.40	2.07	0.96	1.07	3.16
Expected salary increase rate	3.00	N/A	2.75	2.75	N/A
Expected inflation	2.00	3.00	1.50	1.50	N/A
Life expectancy, men[2)]	22	22	20	21	20
Life expectancy, women[2)]	25	24	24	24	22
2018					
Discount rate	2.26	2.72	1.87	1.94	4.30
Expected salary increase rate	3.25	N/A	3.00	3.00	N/A
Expected inflation	2.00	3.00	1.75	1.75	N/A
Life expectancy, men[2)]	22	22	20	21	20
Life expectancy, women[2)]	25	24	24	24	22

[1)] As of 2020, the Dutch pension plan is recognized as a defined contribution pension obligation.
[2)] Life expectancy, expressed in years, for an individual currently aged 65.

The sensitivity of the defined benefit obligations with respect to changes in the principal actuarial assumptions is as follows:

TC4:6 Change of obligation, increased obligation (–)

SEKm	
Discount rate +0.25%	1,333
Price inflation, incl. salary inflation +0.25%	–1,071
Life expectancy +1 year	–1,460

The above sensitivity analysis is calculated by changing one assumption while the others remain constant.

Multiemployer plans

Essity has obligations for disability and family pensions for salaried employees in Sweden, secured through insurance with the insurance company Alecta. The company also has employees in Finland who are covered by the country's statutory TyEL pension plan. These obligations are secured through the insurance company Varma. These benefits are reported as defined contribution plans, since there is no basis for allocating the obligations, plan assets and costs to the individual companies covered by the plan.

Budgeted contributions

The budgeted contributions for the company's defined benefit pension plans for 2021 are calculated at SEK 922m. Contributions for multiemployer plans for 2021 are calculated at SEK 46m.

D. OPERATING ASSETS AND LIABILITIES

D1. INTANGIBLE ASSETS

AP ACCOUNTING PRINCIPLES

Goodwill
Goodwill arises in connection with business combinations where the consideration transferred exceeds the fair value of the acquired net assets. Goodwill is measured at cost less accumulated impairment and is an intangible asset with an indefinite useful life. This means that goodwill is not amortized, but rather tested annually for impairment. All goodwill is allocated to the cash-generating units that are expected to benefit from the synergies from the business combination. In connection with the sale of Group companies, the remaining carrying amount of the goodwill attributable to the divested unit is included in the capital gain/loss. Goodwill that arises in acquisitions of associated companies or joint ventures is included in the carrying amount of the respective associate or joint venture.

Trademarks
Trademarks arise either in connection with company acquisitions or through agreements to purchase trademarks. Trademarks are measured at cost after any accumulated amortization and accumulated impairment. Trademarks that have an indefinite useful life are not amortized, but rather tested annually for impairment along with the impairment testing of goodwill. Trademarks with a limited useful life are amortized on a straight-line basis during their anticipated useful life, which varies between three and ten years.

Licenses, patents and similar rights
Intangible assets also include patents, licenses and other similar rights. Acquired assets of this type are measured at cost and are amortized on a straight-line basis during their anticipated useful life, which varies between three and 20 years.

Customer relations
Customer relations are measured at fair value at the time of the acquisition. The value of these customer relations is amortized over their useful life, which is considered to be between three and 15 years.

Research and development
Research expenditure is recognized as an expense as incurred. Identifiable expenditure for development of new products and processes is capitalized to the extent it is expected to provide future economic benefits. In cases in which it is difficult to separate the research phase from the development phase in a project, the entire project is treated as research and expensed immediately. Development costs for packing and packaging materials are expensed directly. In general, development projects are conservatively assessed due to the difficulty in determining what will lead to commercial success. Capitalized expenditure is amortized on a straight-line basis from the date when the asset starts to be used over the estimated useful life of the asset. The amortization period is between five and ten years.

Impairment testing
Goodwill is tested annually for impairment. When testing for impairment, the assets are grouped in cash-generating units. Essity has defined three cash-generating units for impairment testing, which coincide with the operating segments Consumer Tissue, Professional Hygiene and Personal Care. The test compares the carrying amounts of the cash-generating units with the recoverable amounts. The recoverable amount of each cash-generating unit is determined by discounting future cash flows in order to determine their value in use. The calculation of future cash flows is based on the strategic plans adopted by the Executive Management Team for the next three years. The carrying amount for the cash-generating unit includes goodwill, trademarks with indefinite useful lives and assets with definite useful lives, such as non-current assets, trademarks and working capital. Effects of expansion investments are excluded when calculating the value in use. The value of depreciated assets is tested for impairment whenever there are indications that the carrying amount might not be recoverable. In cases in which the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized on the asset down to the recoverable amount. An impairment loss recognized earlier is reversed, if the reasons for the impairment no longer exist. The carrying amount after the reversal is limited to what it would have been had no past impairment been recognized. Impairment losses on goodwill are never reversed.

Emission allowances and costs for carbon dioxide emissions
Essity participates in the European system for emission allowances.

When emission allowances relating to carbon dioxide emissions are received from an individual EU state, they are recognized as an intangible asset and as deferred income (liability). Allowances are received free of charge and recognized at market value as of the date when the allocation is received. During the period, the intangible asset is expensed in proportion to carbon dioxide emissions made. At the same time as the deferred income is reversed by the corresponding amount thereby resulting in no net effect in profit or loss. If the emission allowances received do not cover emissions made, Essity makes a provision for the deficit valued at the market value on the balance sheet date. Sales of surplus emission allowances are recognized as income on the delivery date.

If the market price of emission allowances on the balance sheet date is less than recognized cost, any surplus emission allowances that are not required to cover emissions made are impaired to the market price applying on the balance sheet date. In conjunction with this, the remaining part of the deferred income is recognized as income by a corresponding amount and therefore no net effect occurs in profit or loss. The emission allowances are used as payment in the settlement with the state regarding liabilities for emissions.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

In connection with the annual impairment testing of goodwill, the recoverable amount is calculated. The recoverable amount for the cash-generating units is determined by calculating value in use. Calculation of the value in use is based on the three-year strategy plans adopted by the Executive Management Team, which in turn are based on assumptions and assessments. The most important assessments and assumptions pertain to forecasts for organic growth, the profit margin and the discount rate used. The discount rate used in the present value calculation of the anticipated future cash flows is the current weighted average cost of capital (WACC) established within the Group for the markets in which the cash-generating units conduct operations.

Profit margin assumptions are based on current market prices and costs adjusted for anticipated price and cost changes as well as assumed productivity development. The growth assumption follows the Group's target of annual organic growth of above 3%. The growth assumptions are in line with historic outcome and expected global market growth.

The expected sustained future cash flow for periods that are beyond the planning horizon of the strategy plan are extrapolated from the final year of the strategy plan using assumed sustained growth of 2% (2; 2).

Goodwill

SEKm	2020	2019	2018
Accumulated costs	32,324	34,846	33,887
Accumulated impairment	–	–265	–334
Total	**32,324**	**34,581**	**33,553**
Value, January 1	**34,581**	**33,553**	**31,697**
Company acquisitions	603	–	311
Company divestments	–36	–15	–
Reclassifications	–	–	–7
Impairment	–	–	–49
Translation differences	–2,824	1,043	1,601
BS **Value, December 31**	**32,324**	**34,581**	**33,553**

Intangible assets excluding goodwill

	Trademarks			Technologies, Customer relations and similar rights			Capitalized development costs			Total Other intangible assets		
SEKm	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Accumulated costs	13,401	14,686	14,438	10,963	12,305	11,863	532	513	447	24,896	27,504	26,748
Accumulated amortization	–506	–559	–446	–5,731	–5,301	–4,312	–180	–132	–87	–6,417	–5,992	–4,845
Accumulated impairment	–	–468	–446	–86	–94	–73	–51	–	–	–137	–562	–519
Total	**12,895**	**13,659**	**13,546**	**5,146**	**6,910**	**7,478**	**301**	**381**	**360**	**18,342**	**20,950**	**21,384**
Value, January 1	**13,659**	**13,546**	**13,117**	**6,910**	**7,478**	**7,927**	**381**	**360**	**309**	**20,950**	**21,384**	**21,353**
Investments	–	–	–	459	138	153	43	58	77	502	196	230
Sales and disposals	–	–44	–	–1	–	–4	–	–	–	–1	–44	–4
Company acquisitions	50	–	9	185	–	68	1	–	–	236	–	77
Company divestments	–	–	–	–2	–	–	–	–	–	–2	–	–
Reclassifications [2]	–	1	–	–1,161	88	–59	–1	–1	–	–1,162	88	–59
Amortization[1]	–137	–109	–78	–946	–958	–929	–57	–44	–42	–1,140	–1,111	–1,049
Impairment	–	–	–56	–	–19	–	–54	–	–	–54	–19	–56
Translation differences	–677	265	554	–298	183	322	–12	8	16	–987	456	892
Value, December 31	**12,895**	**13,659**	**13,546**	**5,146**	**6,910**	**7,478**	**301**	**381**	**360**	**18,342**	**20,950**	**21,384**
TD1:1 Emission allowances, net value										232	232	91
BS **Value, December 31 including emission allowances**										**18,574**	**21,182**	**21,475**

[1] Amortization of Trademarks and Customer relations is included in Sales, general and administration while amortization of Technologies and other intangible assets is included in Cost of goods sold.
[2] In 2020, leases for land were reclassified from other intangible assets to right-of-use asset in the amount of SEK 1,206m.

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. The testing showed that no impairment was needed for 2020, 2019 or 2018. The WACC before tax used in the impairment testing of goodwill is presented in the table below. Sensitivity analyses show that reasonable changes to key parameters do not give rise to any impairment requirement. In addition to annual impairment testing of the cash-generating units, outlined above under the section Impairment testing, goodwill, trademarks with indefinite useful lives and individual assets are also tested when there is an indication of an impairment need. During the period, intangible assets, attributable to the operating segment Personal Care, were impaired by SEK –54m.

Distribution by operating segment

	Goodwill			Trademarks			WACC, before tax %		
SEKm	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Personal Care	16,678	17,545	17,029	8,016	8,544	8,524	8.2	8.6	9.8
Consumer Tissue	9,264	9,894	9,625	4,879	5,108	5,016	8.2	8.1	9.4
Professional Hygiene	6,382	7,142	6,899	–	7	6	6.2	7.3	8.1
Total	**32,324**	**34,581**	**33,553**	**12,895**	**13,659**	**13,546**			

TD1:1 **Emission allowances**

SEKm	2020	2019	2018
Accumulated costs	232	232	91
Accumulated revaluation of surplus	0	0	0
Total	**232**	**232**	**91**
Value, January 1	**232**	**91**	**71**
Emission allowances received	187	174	59
Purchases	30	51	25
Settlement with the government	–206	–84	–68
Translation differences	–11	0	4
Value, December 31	**232**	**232**	**91**

D2. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any impairment. In cases where an investment in foreign currency has been recognized using hedge accounting, the gain/loss from the hedge is recognized as part of the acquisition cost. In major projects the cost of properties and production facilities include costs for running-in and start-up. Borrowing costs are included in the cost of investments exceeding SEK 250m that take more than 12 months to complete. Expenses for repairs and maintenance are expensed directly in profit or loss.

Depreciation and impairment

Land is not subject to depreciation. Buildings, machinery and equipment are depreciated on a straight-line basis over the expected useful lives of the assets. If, at the balance sheet date, there is an indication that property, plant and equipment has declined in value, impairment testing is carried out.

Expected useful lives

	Number of years
Pulp and paper mills	10–25
Converting machines, other machinery	7–18
Tools	3–10
Vehicles	4–5
Buildings	15–50
Energy plants	15–30
Computers	3–5
Office equipment	5–10
Land improvements	10–20

Property, plant and equipment

	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
SEKm	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Accumulated costs	23,004	24,855	23,255	4,052	4,403	4,276	78,399	85,802	80,511	5,320	3,716	4,970
Accumulated depreciation	–10,776	–10,986	–10,010	–599	–649	–599	–48,672	–52,516	–48,983	–	–1	–
Accumulated impairment	–283	–258	–271	–23	–25	–51	–1,401	–1,261	–1,392	–2	–1	–33
Total	**11,945**	**13,611**	**12,974**	**3,430**	**3,729**	**3,626**	**28,326**	**32,025**	**30,136**	**5,318**	**3,714**	**4,937**
Value, January 1	**13,611**	**12,974**	**12,063**	**3,729**	**3,626**	**3,446**	**32,025**	**30,136**	**28,328**	**3,714**	**4,937**	**4,645**
Investments	124	208	102	9	34	22	1,127	1,808	1,601	4,882	3,629	4,950
Sales and disposals	–6	–37	–20	–4	–1	–46	–57	–89	–90	–4	–1	–18
Company acquisitions	28	–	79	9	–	71	42	–	145	–	–	86
Company divestments	–38	–	–	–18	–	–	–73	–81	–	–	–3	–
Reclassifications	235	818	1,134	11	–4	87	2,551	4,045	3,714	–2,844	–5,037	–4,895
Depreciation[1]	–802	–841	–793	–41	–44	–42	–4,444	–4,597	–4,291	–	–	–
Impairment	–42	–6	–23	–	–2	–30	–234	–144	–372	–	–	–3
Reversal of impairment	–	70	–	–	22	–	8	27	–	–	–	–
Translation differences	–1,165	425	432	–265	98	118	–2,619	920	1,101	–430	189	172
Value, December 31	**11,945**	**13,611**	**12,974**	**3,430**	**3,729**	**3,626**	**28,326**	**32,025**	**30,136**	**5,318**	**3,714**	**4,937**

1) Included primarily in Cost of goods sold.

Total property, plant and equipment

SEKm	**2020**	**2019**	**2018**
Accumulated costs	110,775	118,776	113,012
Accumulated depreciation	–60,047	–64,152	–59,592
Accumulated impairment	–1,709	–1,545	–1,747
Total	**49,019**	**53,079**	**51,673**
Value, January 1	**53,079**	**51,673**	**48,482**
Investments	6,142	5,679	6,675
Sales and disposals	–71	–128	–174
Company acquisitions	79	–	381
Company divestments	–129	–84	–
Reclassifications	–47	–178	40
Depreciation[1]	–5,287	–5,482	–5,126
Impairment	–276	–152	–428
Reversal of impairment	8	119	–
Translation differences	–4,479	1,632	1,823
Value, December 31	**49,019**	**53,079**	**51,673**
TG2:1 Right-of-use assets, net value	4,612	3,821	–
BS **Value, December 31 including right-of-use assets**	**53,631**	**56,900**	**51,673**

1) Included primarily in Cost of goods sold.

Impairment losses for the year totaling SEK 276m are related to restructuring measures mainly in Personal Care and Professional Hygiene in Russia and the USA, as well as ongoing measures in Consumer Tissue, primarily in Vinda.

Reversal of impairments totaling SEK 8m is mainly related to previous impairments at production facilities in Consumer Tissue in Spain and France.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 18m (39; 24) and in construction in progress in an amount of SEK 1m (1; 0). The average interest rate used was 3% (4; 5).

Contract obligations relating to the acquisition of property, plant and equipment amounted to SEK 3,131m (3,836; 3,563) at year end.

D3. INVENTORIES

AP ACCOUNTING PRINCIPLES

Inventories are measured at the lower of cost and net realizable value. Cost is calculated mainly by applying the first-in, first-out (FIFO) principle or weighted average cost formula. The cost of inventories and work in progress includes raw material costs, direct labor, other direct expenses and production-related overheads, based on a normal capacity utilization.

The net realizable value is the calculated sales price received for normal business transactions less calculated sales costs.

Inventories

SEKm	**2020**	**2019**	**2018**
Raw materials and consumables	5,890	4,749	3,937
Spare parts and supplies	1,783	1,862	1,656
Products in progress	1,343	1,424	1,546
Finished products	7,363	7,717	8,090
Advance payments to suppliers	4	12	5
BS **Total**	**16,383**	**15,764**	**15,234**

Impairment of inventories amounted to SEK 302m (78; 85), of which SEK 9m (70; 61) was recognized in conjunction with restructuring as an item affecting comparability, refer to Note B3 Operating expenses on page 84.

D4. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2020	2019	2018
VAT receivables	701	702	999
Prepaid expenses and accrued income	529	568	542
Suppliers with debit balance	123	56	43
Receivables for electricity and gas	207	137	134
Receivables from authorities	58	90	75
Derivatives	185	20	324
Other receivables	370	540	482
BS Total	**2,173**	**2,113**	**2,599**

D5. OTHER LIABILITIES

Other liabilities

SEKm	2020	2019	2018
Other non-current liabilities			
Derivatives	6	42	8
Other non-current liabilities	99	141	63
BS Total	**105**	**183**	**71**
Of which items that fall due for payment later than within five years	20	20	17
Other current liabilities			
Derivatives	108	282	35
TD5:1 Accrued expenses and prepaid income	11,592	11,720	10,190
VAT liabilities	1,075	1,042	873
Other operating liabilities	1,770	1,954	1,694
BS Total	**14,545**	**14,998**	**12,792**

TD5:1 Accrued expenses and prepaid income

SEKm	2020	2019	2018
Bonus and discounts to customers	6,070	6,038	5,269
Accrued vacation pay liability	712	699	689
Accrued social security costs	417	440	394
Other liabilities to personnel	1,325	1,538	967
Other items	3,068	3,005	2,871
Total	**11,592**	**11,720**	**10,190**

D6. OTHER PROVISIONS

AP ACCOUNTING PRINCIPLES

Provisions are recognized in the consolidated balance sheet when there is a legal or informal obligation arising from past events and it is probable that payments will be required to settle the obligation. It must also be possible to reliably estimate the amount to be paid. The provision is valued at the present value of the anticipated future expenditure to settle the obligation.

A provision for restructuring measures is recognized when the Group has established a detailed plan and either implementation has begun or the main features of the measures have been communicated to the parties involved. Restructuring costs include, for example, costs for plant closures, impairment of production machinery and costs for personnel reductions.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

The amount of the provisions made relating to legal disputes is based on the company's best assessment, which was determined in consultation with local expertise in the field.

Other provisions 2020

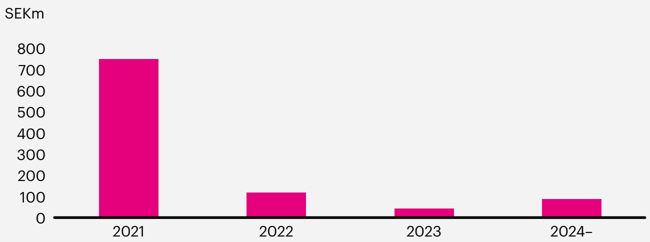
SEKm	Efficiency programs	Environment	Legal disputes	Other	Total
Value, January 1	**787**	**212**	**316**	**291**	**1,606**
Provisions	52	208	113	56	429
Utilizations	–381	–208	–10	–97	–696
Reclassifications	–	–	–39	25	–14
Dissolutions	–40	–	–3	–21	–64
Translation differences	–18	–4	–37	–9	–68
Value, December 31	**400**	**208**	**340**	**245**	**1,193**
Provisions comprise:					
BS Short-term component					748
BS Long-term component					445

Other provisions, previous periods

SEKm	2019	2018
Value, January 1	**3,166**	**3,028**
Provisions	912	1,526
Divestments of Group companies and other operations	–2	–
Utilizations	–1,403	–669
Reclassifications[1]	–949	56
Dissolutions	–157	–853
Translation differences	39	78
Value, December 31	**1,606**	**3,166**

[1] The reclassification in 2019 consists primarily of the reclassification of tax risks to tax liability, see Note B5 Income taxes on page 85.

Distribution of other provisions by maturity[1]



[1] The timing of provisions totaling SEK 197m cannot be assessed.

Of the Provisions for the period for Environment, SEK 208m pertains to a liability for carbon dioxide emissions, which will be settled in 2021. Provisions for the period for Legal disputes primarily relate to an expanded provision for a matter for which a provision has already been made.

Utilizations for the period concerning Efficiency programs are attributable to restructuring measures at the production facilities of Professional Hygiene and Consumer Tissue and the Group-wide cost-savings program. Utilizations for the period concerning Other provisions mainly relate to the payment of foreign tax of a non-recurring nature on non-current assets outside Sweden.

The provisions recognized at the end of the period attributable to Efficiency programs relate mainly to restructuring measures at production facilities of Professional Hygiene and Consumer Tissue. Provisions for Environment pertain mainly to a liability for carbon dioxide emissions. Provisions for Legal disputes mainly consist of reserves for cases relating to the Andean Community (CAN). Other provisions mainly comprise reserves in Italy in connection with, among other items, grants received for future investment commitments.

E. CAPITAL STRUCTURE AND FINANCING

E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL

AP ACCOUNTING PRINCIPLES

Financial instruments recognized in the balance sheet include cash and cash equivalents, securities, other financial receivables, trade receivables, trade payables, loans and derivatives.

Current investments and derivatives are recognized on the trade date. Financial assets and loans are recognized on the settlement date. Trade receivables and trade payables are recognized in the balance sheet once the invoice has been sent or received, respectively.

Financial assets are initially recognized at cost, and transaction costs are included for certain instruments that are not measured at fair value. Financial assets are recognized in the balance sheet until the rights in the agreement have been realized or the company no longer has the rights to the asset. Financial assets measured at amortized cost are continuously reviewed according to the expected loss model to assess the need for credit loss provisions.

Financial liabilities are measured at amortized cost, except in cases where they are recognized at fair value using hedge accounting. Financial liabilities are derecognized from the balance sheet when Essity has met its commitments.

Essity recognizes financial instruments with a remaining maturity of less than 12 months as current assets and liabilities and those that exceed 12 months as non-current assets and liabilities.

Fair value measurement

For the financial instruments for which market quotations are available, actual prices are used for fair value measurement (Level 1). In the absence of market quotations for the instruments, Essity determines fair values with the aid of common valuation models, using quoted prices of similar assets or liabilities in active markets (Level 2).

The fair value of non-current loans measured at prevailing market interest rates is presented in Note E4 Financial liabilities on page 99. The fair value of current financial liabilities and investments is considered to correspond to the carrying amount, since a change in market interest rates does not have a significant effect on market value.

Classification and subsequent recognition

Under IFRS 9 Financial Instruments, financial assets are to be classified on the basis of the company's business model and the purpose of contractual cash flows.

Amortized cost

Financial assets held to collect contractual cash flows, and whose cash flows only consist of interest and the principal amount, are to be measured at amortized cost. The main rule is that financial liabilities are measured at amortized cost with the exception of the liabilities described in the measurement categories below. Since the majority of Essity's financial assets is held to collect contractual cash flows and are held to maturity, they are recognized at amortized cost according to the effective interest method. All liabilities, excluding derivatives, and the liabilities included in a hedging relationship, are measured at amortized cost.

Fair value through comprehensive income

Financial assets held to collect contractual cash flows, and which only consist of interest and the principal amount, and to sell the asset before maturity, are measured at fair value through other comprehensive income with the option to recirculate to profit or loss. Essity did not recognize any assets in this category during the year.

For financial assets comprising an equity instrument, the company can, on initial recognition, make an irrevocable choice to recognize the asset at fair value through comprehensive income without the option of recirculation to profit or loss. Essity has an asset valued at SEK 96m recognized in this category.

Fair value through profit or loss

Financial assets that do not fulfill the requirements as stated in the categories described above are to be measured at fair value through profit or loss. Financial assets and liabilities can, on initial recognition, irrevocably and under certain circumstances, be recognized at fair value through profit or loss if this leads to more relevant information. Derivatives are recognized at fair value through profit or loss. During the year, Essity did not recognize any financial assets or liabilities, except for derivatives and liabilities that are part of a hedging relationship, in this category. For more information, refer to Note E6 Derivatives and hedge accounting on page 100.

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized in accordance with the accounting principles stated in Note E6 Derivatives and hedge accounting on page 100.

Financial instruments by category and measurement level

SEKm	Note	Measure-ment level	2020	2019	2018
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	90	52	36
Derivatives – Current financial assets	E2	2	450	302	198
Derivatives – Other current receivables	D4	2	31	12	59
Total			**571**	**366**	**293**
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	10,615	13,167	16,083
Current financial liabilities	E4	2	5,038	–	905
Derivatives – Non-current financial liabilities	E4	2	2	95	58
Derivatives – Current financial liabilities	E4	2	610	486	327
Derivatives – Other current liabilities	D5	2	70	48	14
Total			**16,335**	**13,796**	**17,387**
Loan and trade receivables measured at amortized cost					
Non-current financial assets	E2	–	18	20	28
Current financial assets	E2	–	231	155	95
Trade receivables	E3	–	17,825	19,864	18,687
Cash and cash equivalents	E2	–	4,982	2,928	3,008
Total			**23,056**	**22,967**	**21,818**
Financial assets measured at fair value through other comprehensive income					
Non-current financial assets	E2	1	96	96	87
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	24,861	26,796	27,359
Non-current lease liabilities	E4	–	2,724	3,021	–
Current financial liabilities	E4	–	2,206	7,560	9,580
Current lease liabilities	E4	–	807	851	–
Trade payables	–	–	14,791	15,802	15,911
Total			**45,389**	**54,030**	**52,850**
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	534	526	483
Other non-current assets	–	2	79	3	85
Other current receivables	D4	2	154	8	265
Current financial assets	E2	2	312	68	129
Total			**1,079**	**605**	**962**
Other non-current liabilities	D5	2	6	42	8
Current financial liabilities	E4	2	27	86	15
Other current liabilities	D5	2	38	234	21
Total			**71**	**362**	**44**

These financial instruments are measured at fair value, with the exception of loans and trade receivables and financial liabilities measured at amortized cost. According to Essity's assessment, the fair value essentially corresponds to the carrying amount, with the exception of non-current liabilities, the fair value of which is disclosed in Note E4 Financial liabilities on page 99.

Measurement levels

Level 1: Quoted prices on an active market for identical assets or liabilities, such as shares or bonds quoted on the stock exchange.

Level 2: Other observable inputs for the asset or liability than quoted prices included in Level 1, either directly (price quotations) or indirectly (obtained from price quotations), such as forward contracts or interest rate swaps.

Financial instruments in other notes to the balance sheet

		2020		2019		2018	
SEKm	Note	Financial instru-ments	Of which deriva-tives	Financial instru-ments	Of which deriva-tives	Financial instru-ments	Of which deriva-tives
Assets							
Financial assets, cash and cash equivalents	E2	6,713	1,386	4,147	948	4,064	846
Other non-current assets		79	79	3	3	85	85
Trade receivables	E3	17,825	–	19,864	–	18,687	–
Other current receivables	D4	185	185	20	20	324	324
Total		**24,802**	**1,650**	**24,034**	**971**	**23,160**	**1,255**
Liabilities							
Financial liabilities	E4	46,890	639	52,062	667	54,327	400
Other non-current liabilities	D5	6	6	42	42	8	8
Trade payables		14,791	–	15,802	–	15,911	–
Other current liabilities	D5	108	108	282	282	35	35
Total		**61,795**	**753**	**68,188**	**991**	**70,281**	**443**

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

The main principle for recognition of Essity's financial liabilities is that they are initially measured at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method.

In cases where loans with fixed interest rates are hedged using derivatives, both the loan and the derivative are measured at fair value through a fair value hedge. Non-current loans that are subject to hedge accounting are discounted to the market interest rate without a credit spread. The cash flows from the interest rate derivatives are discounted to the market interest rate and the changes in value are recognized in profit or loss.

Financial liabilities

SEKm	2020	2019	2018
Non-current financial liabilities			
Bond issues	28,486	31,690	34,247
Derivatives	2	95	58
Non-current lease liabilities	2,724	3,021	–
Other non-current loans with maturities > 1 year < 5 years	6,971	7,944	6,884
Other non-current loans with maturities > 5 years	19	329	2,311
BS **Total**	**38,202**	**43,079**	**43,500**
Current financial liabilities			
Amortization within one year	219	255	347
Bond issues	5,037	–	3,005
Derivatives	637	572	342
Current lease liabilities	807	851	–
Loans with maturities of less than one year	1,833	7,137	6,948
Accrued financial expenses	155	168	185
BS **Total**[1]	**8,688**	**8,983**	**10,827**
Total financial liabilities	**46,890**	**52,062**	**54,327**
Fair value of financial liabilities excluding leases	43,947	49,106	54,434

1) Fair value of current loans is estimated to be the same as the carrying amount.

Borrowing

Essity has a Euro Medium Term Note (EMTN) program with a program amount of EUR 6,000m (SEK 60,169m) for issuing bonds in the European capital market. As of December 31, 2020, a nominal EUR 3,440m (3,134; 3,728) was outstanding in public and bilateral issues with a remaining maturity of 3.4 years (3.8; 4.2).

Public bond issues

Issued[1]	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate, %
Notes EUR 500m	2021	5,037	5,037	0.50
Notes EUR 600m	2022	6,005	6,078	0.63
Notes EUR 500m	2023	5,281	5,330	2.50
Notes EUR 600m	2024	6,000	6,234	1.13
Notes EUR 300m	2025	3,170	3,135	1.13
Notes EUR 500m	2027	4,985	5,373	1.63
Notes EUR 300m	2030	3,045	2,934	0.50
Total		**33,523**	**34,121**	

1) In February 2021, a further EUR 700m was raised under the EMTN program, with a coupon of 0.25 percentage points and maturity of ten years .

Non-current financial liabilities	Carrying amount, SEKm	Fair value, SEKm
Other non-current loans with maturities > 1 year < 5 years	6,971	7,336
Other non-current loans with maturities > 5 years	19	19
Total	**6,990**	**7,355**

Essity has a Swedish and a Belgian commercial paper program that can be utilized for current borrowing.

Commercial paper program[1]

Program size	Issued SEKm
Commercial paper SEK 15,000m	–
Commercial paper EUR 1,200m	–
Total	–

1) Included in Loans with maturities of less than one year in the Financial liabilities table.

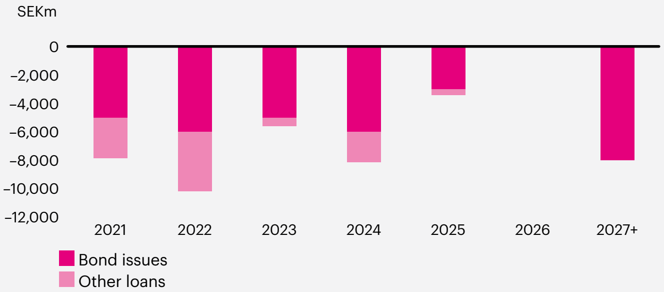
Essity has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. Contracted bilateral credit facilities with banks are used to supplement these syndicated bank facilities.

Credit facilities

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 59m	2024	590	–	590
	EUR 941m	2025	9,438	–	9,438
	EUR 1,000m	2025[1]	10,028	–	10,028
Total			**20,056**	–	**20,056**

1) The syndicated credit facility expiring in 2025 was extended in January 2021 by EUR 937m until 2026. The remaining EUR 63m falls due in 2025.

Maturity profile of gross debt[1]



1) Gross debt includes accrued interest in the amount of SEK 277m.

After additions for net pension provisions and lease liabilities and with deductions for cash and cash equivalents, interest-bearing receivables and equity instruments, the net debt was SEK 42,688m (50,940; 54,404). For a description of the methods used by Essity to manage its refinancing risk, refer to the Risks and risk management section on page 41.

E5. LIQUIDITY RISK

The table below shows the Group's liquidity risk regarding financial liabilities (including interest payments), net settled derivatives that constitute financial liabilities and negative cash flows from gross settled derivatives. For a description of the methods used by Essity to manage its liquidity risk, refer to the Risks and risk management section on page 41.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
2020				
Loans including interest	7,602	16,590	11,910	8,153
Net settled derivatives	1	1	–	–
Energy derivatives	41	5	–	–
Lease liabilities	818	1,118	675	1,294
Trade payables	14,785	6	–	–
Total	**23,247**	**17,720**	**12,585**	**9,447**
Gross settled derivatives[1]	59,168	2,135	104	–
2019				
Loans including interest	8,003	18,438	14,325	8,850
Net settled derivatives	0	0	–	–
Energy derivatives	254	42	–	–
Lease liabilities	864	1,213	767	1,520
Trade payables	15,795	7	–	–
Total	**24,916**	**19,700**	**15,092**	**10,370**
Gross settled derivatives[1]	60,735	1,057	591	
2018				
Loans including interest	10,998	14,864	13,686	16,975
Net settled derivatives	0	0	0	–
Energy derivatives	22	8	–	–
Trade payables	15,786	125	–	–
Total	**26,806**	**14,997**	**13,686**	**16,975**
Gross settled derivatives[1]	57,937	2,101	466	

1) The gross settled derivatives have, largely, corresponding positive cash flows and therefore, in the opinion of Essity, do not constitute any real liquidity risk.

E6. DERIVATIVES AND HEDGE ACCOUNTING

AP ACCOUNTING PRINCIPLES

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously measured at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized as described below. When using hedge accounting, the relationship between the hedging instrument and the hedged item is documented. Assessment of the effectiveness of the hedge is also documented, both when the transaction is initially executed and on an ongoing basis. Hedge effectiveness is the extent to which the hedging instrument offsets changes in value in a hedged item's fair value or cash flow. The ineffective portion is recognized directly in profit or loss.

Cash flow hedges

Gains and losses on remeasurement of derivatives intended for cash flow hedges are recognized in equity under other comprehensive income and reversed to profit or loss at the rate at which the hedged cash flow affects profit or loss. If a hedge relationship is interrupted and cash flow is still expected, the result is recognized in equity under other comprehensive income until the cash flow affects the result. If the hedge pertains to a balance sheet item, the result is transferred from equity to the asset or liability to which the hedge relates when the value of the asset or liability is determined for the first time. In cases in which the forecast cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative gain or loss that is recognized in equity under other comprehensive income is transferred directly to profit or loss. Cash flow hedges relating to energy are recognized as energy costs, that is, cost of goods sold. Cash flow hedges related to transaction exposure are recognized in consolidated net sales and expenses.

Hedges of net investments in foreign operations

Gains and losses on remeasurement of derivatives intended to hedge Essity's net investments in foreign operations are recognized in equity under other comprehensive income. The cumulative gain or loss in equity is recognized in profit or loss in the event of divestment of the foreign operation.

Fair value hedges

The gain or loss from remeasurement of a derivative relating to fair value hedges is recognized in profit or loss together with changes in fair value of the hedged asset or liability. For Essity, this means that non-current loans that are subject to hedge accounting are discounted without a credit spread to the market interest rate and meet inherent interest rate derivatives' discounted cash flows at the same interest rate.

Economic hedges

When Essity conducts hedges and the transactions do not meet requirements for hedge accounting according to IFRS 9, changes in fair value of the hedging instrument are recognized directly in profit or loss.

Outstanding derivatives

		Of which		
SEKm	**Total**	**Currency[1)]**	**Interest rate**	**Energy**
2020				
Nominal	80,489	62,251	16,514	1,724
Asset	1,650	856	558	236
Liability	753	706	2	45
2019				
Nominal	81,412	62,506	17,224	1,682
Asset	971	412	545	14
Liability	991	695	0	296
2018				
Nominal	80,623	60,744	17,935	1,944
Asset	1,255	370	489	396
Liability	443	412	1	30

1) Nominal SEK 74,475m (64,183; 69,588) is outstanding before the right of set-off.

Balance sheet

Essity uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how Essity manages these risks, refer to the section on Risk and risk management on page 36. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2020. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category and measurement level on page 97.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2020		
Gross amount	1,710	813
Offsettable amount	–60	–60
Net amount recognized in the balance sheet	1,650	753
ISDA agreements whose transactions are not offset in the balance sheet	–699	–699
Collateral received	–64	–
Net after offsetting in accordance with ISDA agreements	**887**	**54**
December 31, 2019		
Gross amount	972	992
Offsettable amount	–1	–1
Net amount recognized in the balance sheet	971	991
ISDA agreements whose transactions are not offset in the balance sheet	–420	–420
Collateral paid	–	–26
Net after offsetting in accordance with ISDA agreements	**551**	**545**
December 31, 2018		
Gross amount	1,275	463
Offsettable amount	–20	–20
Net amount recognized in the balance sheet	1,255	443
ISDA agreements whose transactions are not offset in the balance sheet	–347	–347
Collateral received	–98	–
Net after offsetting in accordance with ISDA agreements	**810**	**96**

Profit or loss

Hedges pertaining to transaction exposure had an impact of SEK –37m (–16; 92) on operating profit for the period. At year-end, the net market value amounted to SEK –39m (–17; 0). Currency hedges decreased the cost of non-current assets by SEK 2m (increased: 14; increased: 1). At year-end, the net market value amounted to SEK –4m (–3; –1). Energy derivatives had an impact of SEK –451m (–173; 396) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 191m (–282; 366) at year-end. Derivatives impacted net interest items in an amount of SEK –169m (–381; –362). The net market value of outstanding interest rate derivatives amounted to SEK 556m (545; 489) at year-end. For further information relating to financial items, see Note E7 Financial income and expenses on page 103.

Sensitivity analysis

Essity has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2020 using assumptions on market movements that are regarded as reasonably possible in one year's time. If the Swedish krona had unilaterally weakened/strengthened by 5% against all currencies, outstanding financial hedges, trade payables and trade receivables would have decreased/increased profit for the period before tax by SEK 13m (8; 7).

If the Swedish krona had unilaterally weakened/strengthened by 5%, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 1m (0; 0). If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 245m (174; 299). In addition to the earnings impact, equity would have increased/decreased by SEK 124m (90; 136). However, the total energy cost for the Group would have been affected differently if the price risk related to supply contracts was taken into account.

Derivatives with hedge accounting

The various risk management strategies are presented in the Risks and risk management section on page 36. The derivatives to which hedge accounting is applied are presented below. Essity also continuously hedges the transaction exposure and energy price risks for the risks that are recognized in the balance sheet and profit or loss. Hedge accounting is not applied in respect of these risks. For currency derivatives, the revaluation from the risks meets derivatives in the financial positions. For energy derivatives, the result is recognized in profit or loss.

IFRS 9 provides the option of hedging risk components. In 2020, Essity did not utilize this option except for energy, where Essity in the Nordic region hedges the system price, which is a sub-component. The hedging ratio for the various risks for which hedge accounting is prepared is consistently 1:1.

On account of the ongoing Interest Rate Benchmark Reform, Essity has evaluated the potential impact on existing hedging relationships. Essity has a number of fair value hedges that use EURIBOR as basis for the variable interest rate in the derivative. In the event EURIBOR ceases to exist, the hedging relationships are covered by the exemption rules in IFRS 9, thus resulting in no material effects in connection with the transition to a new interest rate benchmark. The nominal amount of the hedging relationships in question is presented in the tables below. Essity is carefully monitoring the developments relating to the Interest Rate Benchmark Reform and the forthcoming changes to IFRS 9 and IFRS 7, which come into effect on January 1, 2021.

Cash flow hedges

Cash flow hedges for currency risk are prepared for transaction exposure, large investments and energy price risks in connection with purchases of electricity and gas. For cash flow hedges, hedges are prepared whereby critical terms match the hedged item. For the cash flow hedges prepared, this means that the change in fair value of the hedging instruments and the change in the hedged item are very highly correlated. Any ineffectiveness could, for example, be due to the time or the amount of the forecast cash flow mismatching with the cash flow of the derivative. In 2020, SEK 0m (0; 0) was recognized in profit or loss as ineffectiveness concerning the cash flow hedges. Currency derivatives mature until March 2023, while energy derivatives mature until December 2022.

Hedging of net investments

Essity has hedged net investments in a number of selected legal entities in order to achieve the desired currency distribution of net debt relative to assets so that key figures that are important to the company's credit rating can be protected in the long term. The result of hedging positions affected equity by a total of SEK 1,504m (–168; –122) during the year. This result is largely due to hedges of net investments in USD and EUR. In 2020, SEK 0m (0; 0) was recognized in profit or loss as ineffectiveness. The total market value of outstanding hedging transactions at the end of the period was SEK 374m (124; 353). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK –12,854m. Essity's total foreign net investments at year-end amounted to SEK 71,222m. Currency derivatives and loans in foreign currency are used to hedge net investments.

Fair value hedges

For fair value hedges, the hedges have the same nominal amount, maturity dates and fixed interest as the hedged item. Hedge ineffectiveness is attributable, for example, to the various discount curves for the hedging instrument and the hedged item. Hedge ineffectiveness per maturity date is presented in the table below. Ineffectiveness is recognized in financial items under Fair value hedges, unrealized. See Note E7 Financial income and expenses on page 103.

		2020		2019		2018	
Currency and energy derivatives, SEKm	**Line in the Balance sheet**	**Nominal amount**	**Carrying amount**	**Nominal amount**	**Carrying amount**	**Nominal amount**	**Carrying amount**
Currency derivatives – cash flow hedges	Other non-current assets	64	–	–	–	–	–
Currency derivatives – cash flow hedges	Other current receivables	99	3	47	1	270	3
Currency derivatives – cash flow hedges	Other non-current liabilities	62	1	28	0	–	–
Currency derivatives – cash flow hedges	Other current liabilities	185	6	283	4	179	4
Energy derivatives – cash flow hedges	Other non-current assets	559	79	36	3	588	85
Energy derivatives – cash flow hedges	Other current receivables	706	151	68	7	901	262
Energy derivatives – cash flow hedges	Other non-current liabilities	79	5	516	42	128	8
Energy derivatives – cash flow hedges	Other current liabilities	354	33	994	230	281	17
Currency derivatives – hedging of net investments	Non-current financial assets	–	–	–	–	–	–
Currency derivatives – hedging of net investments	Current financial assets	8,904	288	4,499	68	10,470	143
Currency derivatives – hedging of net investments	Non-current financial liabilities	–	–	–	–	–	–
Currency derivatives – hedging of net investments	Current financial liabilities	2,096	27	2,691	86	2,726	15

Interest rate derivatives – hedging of fair value, SEKm

					Line in the balance sheet		
Maturity date	**Nominal amount**	**Change in fair value, hedged item**	**Change in fair value, derivatives**	**Ineffectiveness**	**Financial assets**	**Financial liabilities**	**Variable interest**
2020							
Current derivatives							
2021	5,014	12	–10	2	24	–	Euribor 6m +0.5502–0.5527
Non-current derivatives							
2022	68	2	–2	0	1	–	Euribor 3m +0.698
2023	4,011	57	–61	–4	280	–	Euribor 6m +0.7215–0.73165
2025	3,008	–18	18	0	164	–	Euribor 6m +0.514–0.5168
2030	3,008	–57	76	19	89	–	Euribor 6m +0.5077–0.5102
	15,109	**–4**	**21**	**17**	**558**	**–**	
2019							
Non-current derivatives							
2021	5,213	–11	11	0	33	–	Euribor 6m +0.5502–0.5527
2022	127	3	–3	0	3	0	Euribor 3m +0.698
2023	4,170	8	–13	–5	343	–	Euribor 6m +0.7215–0.73165
2025	3,128	–71	73	2	147	–	Euribor 6m +0.514–0.5168
	12,638	**–71**	**68**	**–3**	**526**	**0**	

Total reserves in equity

SEKm	2020	2019	2018
Value, January 1	**6,284**	**5,003**	**3,154**
Reclassification	0	0	0
Fair value through other comprehensive income	3	6	–5
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	–9	–725	471
Transferred to profit or loss for the period	473	112	–378
Translation differences in foreign operations[1]	–7,252	1,869	1,876
Gains/losses from hedges of net investments in foreign operations	1,504	–168	–122
Tax on items recognized directly in/transferred from equity	–420	173	6
Other comprehensive income for the period, net of tax	**–5,701**	**1,267**	**1,848**
Transfer to cost of fixed assets concerning hedged investments, net of tax	–2	14	1
Value, December 31	**581**	**6,284**	**5,003**

1) Transfer to profit or loss of realized translation difference relating to divested and liquidated companies is included in the amount of SEK 4m (–178; 0).

TE8:2 Specification of income tax attributable to components in other comprehensive income

	2020			2019			2018		
SEKm	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Actuarial gains/losses on defined benefit pension plans	–202	280	78	482	54	536	–1,036	175	–861
Fair value through other comprehensive income	3	–1	2	6	–2	4	–5	1	–4
Cash flow hedges	464	–109	355	–613	138	–475	93	–21	72
Translation differences in foreign operations	–8,092	–	–8,092	2,095	–	2,095	2,080	–	2,080
Other comprehensive income from associated companies	–20	4	–16	–14	4	–10	23	–1	22
Gains/losses from hedges of net investments in foreign operations	1,504	–310	1,194	–168	37	–131	–122	26	–96
Other comprehensive income for the period	**–6,343**	**–136**	**–6,479**	**1,788**	**231**	**2,019**	**1,033**	**180**	**1,213**

At December 31, 2020, the debt/equity ratio amounted to 0.67 (0.81; 0.99). Changes in liabilities and equity are described in the Financial position section on page 35. Essity's target for capital structure is to establish an effective capital structure, while at the same time ensuring long-term access to loan financing. Cash flow in relation to net debt is to be taken into consideration with the aim of maintaining a solid investment grade rating.

Essity has a credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. Essity's financial risk management is described in the Risk and risk management section on page 36. The Essity share section on page 8 outlines Essity's dividend policy, while its capital structure is described in the Objectives, targets and outcomes section on page 22.

F. GROUP STRUCTURE

F1. GROUP COMPANIES

AP ACCOUNTING PRINCIPLES

Group companies
The companies over which Essity has control are consolidated as Group companies. Control means that Essity has sufficient influence to control the relevant activities of the Group company, and that Essity has the right to, and can influence, its variable returns from its participation in the Group company. Most of the Group's companies are wholly owned, which means that Essity has control over the companies. Essity owns 52% of Vinda, 50% of Familia and 49% of Unicharm Mölnlycke, over which Essity also considers itself in control.

Non-controlling interests
Non-controlling interests are recognized as a separate item in the Group's equity. Profit or loss and every component of other comprehensive income are attributable to the owners of the Parent company and to non-controlling interests. Losses attributable to non-controlling interests are recognized even if this results in a negative balance for the non-controlling interest. In connection with acquisitions of less than 100% when a controlling influence is achieved, non-controlling interests are determined either as a proportional share of the fair value of identifiable net assets excluding goodwill or at fair value. Subsequent acquisitions up to 100% and divestments of participations in a Group company that do not lead to a loss of controlling influence are recognized as an equity transaction.

List of major Group companies
The Group's participations in major Group companies at December 31, 2020 are presented below. The following selection of wholly owned Group companies or Group companies with significant non-controlling interests includes companies with external and internal sales in excess of SEK 500m in 2020.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2020	Share of equity at December 31, 2019	Share of equity at December 31, 2018
Essity France SAS	509,395,109	Saint-Ouen, France	100	100	100
Essity Holding Netherlands B.V.	30-135 724	Zeist, Netherlands	100	100	100
Essity UK Ltd.	577,116	Dunstable, UK	100	100	100
Essity Professional Hygiene North America LLC	58-2494137	Delaware, USA	100	100	100
Vinda International Holdings Ltd[1)]	90235	Hong Kong, China	52	52	52
Essity Operations Wausau LLC	41-2218501	Wisconsin, USA	100	100	100
Essity Germany GmbH	HRB 713 332	Mannheim, Germany	100	100	100
Essity Hygiene and Health AB	556007-2356	Gothenburg, Sweden	100	100	100
Essity Spain S.L.	B28451383	Puigpelat, Spain	100	100	100
Essity Higiene y Salud Mexico, S.A. de C.V.	SCM-931101-3S5	Mexico City, Mexico	100	100	100
Productos Familia S.A. Colombia[1)]	8909001619	Medellin, Colombia	50	50	50
Productos Familia del Sancela Ecuador S.A.[1)]	179131437900	Quito, Ecuador	50	50	50
Productos Sancela del Peru [1)]	20255172884	Lima, Peru	50	50	50
Essity Italy S.p.A.	3,318,780,966	Altopascio, Italy	100	100	100
Essity LLC	1024700877200	Moscow, Russia	100	100	100
Essity Poland Sp.z.o.o.	KRS No. 0000427360	Warsaw, Poland	100	100	100
Essity Austria GmbH	FN 49537 z	Vienna, Austria	100	100	100
Essity Belgium SA-NV	BE0405.681.516	Stembert, Belgium	100	100	100
Essity Professional Hygiene Germany GmbH	HRB 710 878	Mannheim, Germany	100	100	100
Essity Canada Inc.	421984	Ontario, Canada	100	100	100
OY Essity Finland AB	0165027-5	Espoo, Finland	100	100	100
Essity HMS North America Inc.	23-3036384	Delaware, USA	100	100	100
Essity Norway AS	915,620,019	Oslo, Norway	100	100	100
Essity Switzerland AG	CH-020.3.917.992-8	Schenkon, Switzerland	100	100	100
Essity Denmark A/S	DK20 638 613	Allerød, Denmark	100	100	100
Essity Chile SA	94.282.000-3	Santiago de Chile, Chile	100	100	100
Essity Hungary Kft	01-09-716945	Budapest, Hungary	100	100	100
Uni-Charm Mölnlycke KK	0104-01-046146	Tokyo, Japan	49	49	49
Essity Czech Republic s.r.o.	485 36 466	Prague, Czech Republic	100	100	100
Essity Operations Allo SL	B31235260	Allo, Spain	100	100	100
Essity Slovakia s.r.o.	36590941	Gemerska Horska, Slovakia	100	100	100
Essity Operations Mainz-Kostheim GmbH	HRB 5301	Mainz-Kostheim, Germany	100	100	100
Essity Operations France SAS	702,055,187	Saint-Ouen, France	100	100	100
Essity Operations Mannheim GmbH	HRB 3248	Mannheim, Germany	100	100	100
Essity Operations Neuss GmbH	HRB 14343	Neuss, Germany	100	100	100
Essity Operations Poland Sp.z.o.o.	KRS No. 0000086815	Olawa, Poland	100	100	100
Essity Operations Le Theil SAS	509,599,619	Saint-Ouen, France	100	100	100
Essity Operations Manchester Ltd	4119442	Dunstable, UK	100	100	100
BSN medical GmbH	HRB 124 187	Hamburg, Germany	100	100	100
BSN Radiante SAS	652,880,519	Le Mans, France	100	100	100
BSN Medical Inc.	3269728	North Carolina, USA	100	100	100
BSN-Jobst GmbH	HRB 3482	Emmerich, Germany	100	100	100
Essity Hijyen Ürünleri Sanayi ve Ticaret A.S.	640954	Istanbul, Turkey	100	100	100
Essity Centroamérica S.A.	3-101-211115	San José, Costa Rica	100	100	100
Essity do Brasil Indústria e Comércio Ltda.	72.899.016/0001-99	Jarinu, Brazil	100	100	100
Essity Ireland Ltd.	184359	Dublin, Ireland	100	100	100
Essity Distribution B.V.	75490080	Amsterdam, Netherlands	100	100	100

1) Essity has a small number of jointly owned Group companies with significant non-controlling interests, see Note F2 on page 106.

F2. JOINTLY OWNED GROUP COMPANIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Vinda
Vinda International Holdings Ltd. (Vinda) is one of China's largest hygiene companies and listed on the Hong Kong stock exchange. Essity's holding in Vinda amounts to 52%. Vinda's market capitalization on the Hong Kong stock exchange was SEK 26,768m (20,266; 16,868) at the end of the period.

Familia
Productos Familia S.A., Colombia (Familia) is 50% owned by Essity and the remaining shares are primarily owned by the Gomez family. Essity is deemed to have a controlling influence of Familia since it has control over the activities with the most significant impact on Familia's return. Familia operates in the South American market and sells Personal Care, Consumer Tissue and Professional Hygiene products.

Financial information
Financial information is disclosed below for both Group companies. Financial information has not been disclosed for other Group companies with significant non-controlling interests since no other individual company had a material impact on the Group's earnings and financial position.

The income statements and balance sheets as shown below are included in Essity's consolidated financial statements and consider adjustments for surplus values in connection with acquisitions.

Group companies with significant non-controlling interests, 100% of operations[1)]

	Vinda			Familia		
SEKm	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Condensed income statement						
Net sales	19,521	19,355	16,543	6,950	7,603	7,047
Operating profit before amortization of acquisition-related intangible assets	2,980	1,889	1,133	1,170[2)]	1,042[2)]	729[2)]
Operating profit	2,900	1,882	1,127	1,162[2)]	1,032[2)]	947[2)]
Profit for the period	2,223	1,364	720	819	719	648
of which attributable to owners of the Parent company	1,151	709	374	410	371	334
Other comprehensive income for the period	–60	62	–13	–803	191	–39
of which attributable to owners of the Parent company	–31	32	–7	–409	86	–78
Comprehensive income for the period	**2,163**	**1,426**	**707**	**16**	**910**	**609**
of which attributable to owners of the Parent company	1,120	741	367	1	457	256
of which attributable to non-controlling interests	1,043	685	340	15	453	353
Dividend to non-controlling interests	212	146	125	187	151	227
Condensed balance sheet						
Non-current assets	17,362	20,556	19,834	3,217	3,861	3,231
Current assets	8,799	7,043	6,552	3,466	3,616	3,101
Total	**26,161**	**27,599**	**26,386**	**6,683**	**7,477**	**6,332**
Equity attributable to owners of the Parent company	8,434	9,110	8,373	2,094	2,281	1,975
Equity attributable to non-controlling interests	5,941	6,397	5,753	2,018	2,190	1,888
Non-current liabilities	3,519	5,399	5,799	802	1,080	811
Current liabilities	8,267	6,693	6,461	1,769	1,926	1,658
Total	**26,161**	**27,599**	**26,386**	**6,683**	**7,477**	**6,332**
Cash flow from operating activities	2,371	3,031	1,474	1,274	841[3)]	786[3)]
Cash flow from investing activities	–2,041	–1,535	–1,310	–253	–254[3)]	–892[3)]
Cash flow from financing activities	–37	–1,625	–63	–468	–460[3)]	–233[3)]
Cash flow for the period	**293**	**–129**	**101**	**553**	**126[3)]**	**–339[3)]**

1) For more information about the companies, refer to the list of major Group companies on page 105.
2) For Familia, items affecting comparability in the amount of SEK –m (–22; –38) are included. Amounts for 2019 and 2018 have been adjusted.
3) Amounts for Familia regarding 2019 and 2018 have been adjusted.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES

AP ACCOUNTING PRINCIPLES

Joint arrangements
Essity classifies its joint arrangements as joint ventures or joint operations, which are presented in Note F4 Joint operations on page 108.

Joint ventures
Joint ventures are defined as companies in which Essity together with other parties has shared control over operations. A joint venture entitles the joint owners to the net assets of the investment. Joint ventures are recognized in accordance with the equity method, meaning that a net item including the goodwill will be recognized for each joint venture in the balance sheet. A share in profits is recognized in the income statement as a component of "Share of profits of associated companies and joint ventures". Share of profits is calculated on the basis of Essity's share of equity in the respective joint venture. Joint arrangements recognized in accordance with the equity method are initially measured at cost. Measurement of acquired assets and liabilities is carried out in the same way as for Group companies.

Associated companies
Associated companies are companies in which the Group exercises a significant influence without the partly owned company being a Group company or a joint arrangement. Normally, this means that the Group owns between 20% and 50% of the votes. Accounting for associated companies is carried out according to the equity method and they are initially measured at cost. Valuation of acquired assets and liabilities is performed in the same manner as for Group companies and the carrying amount for associated companies includes any goodwill and other Group adjustments.

The Group's share of profit after tax arising in the associate after the acquisition is recognized in the consolidated income statement in the line "Share of profits of associated companies and joint ventures". Share of profits is calculated on the basis of Essity's share of equity in the respective associate.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES, CONT.

Carrying amounts of joint ventures and associated companies

SEKm	2020	2019	2018
Joint ventures			
Value, January 1	**181**	**171**	**144**
Net increase in joint ventures[1]	17	8	19
Translation differences	–9	2	8
Value, December 31	**189**	**181**	**171**
Associated companies			
Value, January 1	**684**	**606**	**918**
Company acquisitions	–	3	–
Company divestments	–	–	–3
Net change in associated companies[1]	1	43	–21
Impairment of associated companies	–	–	–278
Reclassification between associated companies and Group companies	–	–	–6
Translation differences	–27	32	–4
Value, December 31	**658**	**684**	**606**
BS TF3:1 **Value, December 31, joint ventures and associated companies**	**847**	**865**	**777**

1) Net increase for the period includes the Group's share of the profit after tax of joint ventures and associated companies, as well as items recognized directly in equity (both after deductions for any non-controlling interests). In addition, an adjustment is included for dividends received during the period, which amounted to SEK 3m (8; 7) for joint ventures and SEK 28m (–; 79) for associated companies.

Joint ventures and associated companies

Asaleo Care

Asaleo Care Ltd (Asaleo Care) manufactures and markets Consumer Tissue, Professional Hygiene and Personal Care products. Essity has licensed its Tork and TENA brands to Asaleo Care for sale in Australia, New Zealand and Fiji. Essity's share of Asaleo Care amounts to 36%. In 2018, the company recognized an impairment loss of AUD 148.5m relating to assets in the Tissue business in Australia and the Personal Care business in New Zealand. During 2019, the company divested Consumer Tissue operations in Australia. In 2020, the company discontinued the Baby Care operations in New Zealand. Essity has recognized the effects of these transactions as items affecting comparability, see Note B3 on page 84.

Bunzl & Biach

Bunzl & Biach GmbH (Bunzl & Biach) Vienna, is Essity's single largest joint venture that operates in the recovered paper market and supplies raw materials to Essity's business.

TF3:1 Material joint ventures and associated companies, 100% of operations

	Joint ventures			Associated companies					
	Bunzl & Biach			Asaleo Care			Total		
SEKm	2020	2019	2018	2020	2019[1]	2018	2020	2019	2018
Condensed income statement									
Net sales	1,134	1,424	1,471	2,655	2,795	2,645	3,789	4,219	4,116
Depreciation/amortization	–14	–13	–13	–171	–168	–169	–185	–181	–182
Operating profit	34	30	47	390	346	126	424	376	173
Interest income	–	–	–	1	3	3	1	3	3
Interest expenses	–	–	–	–52	–80	–98	–52	–80	–98
Other financial items	–	–	1	–1	–4	–3	–1	–4	–2
Tax expense	–7	–9	–14	–97	–73	–23	–104	–82	–37
Profit for the period, continuing operations	27	21	34	241	192	5	268	213	39
Profit/loss for the period, discontinued operations	–	–	–	–37	–9	–710	–37	–9	–710
Profit/loss for the period	27	21	34	204	183	–705	231	204	–671
Other comprehensive income for the period	–	–	–	–44	–13	63	–44	–13	63
Comprehensive income for the period	**27**	**21**	**34**	**160**	**170**	**–642**	**187**	**191**	**–608**
Condensed balance sheet									
Non-current assets	160	163	147	1,929	2,041	1,728	2,089	2,204	1,875
Cash and cash equivalents	64	31	12	345	216	426	409	247	438
Other current assets	174	167	238	690	969	885	864	1,136	1,123
Assets held for sale	–	–	–	–	–	1,131	–	–	1,131
Total assets	**398**	**361**	**397**	**2,964**	**3,226**	**4,170**	**3,362**	**3,587**	**4,567**
Non-current financial liabilities	90	69	118	932	1,114	2,061	1,022	1,183	2,179
Other non-current liabilities	63	69	67	206	363	131	269	432	198
Current financial liabilities	–	–	–	48	9	4	48	9	4
Other current liabilities	26	31	34	544	513	639	570	544	673
Liabilities directly linked to assets held for sale	–	–	–	–	–	294	–	–	294
Total liabilities	**179**	**169**	**219**	**1,730**	**1,999**	**3,129**	**1,909**	**2,168**	**3,348**
Net assets	**219**	**192**	**178**	**1,234**	**1,227**	**1,041**	**1,453**	**1,419**	**1,219**
Group share of net assets	107	94	87	446	444	376	553	538	463
Surplus value	69	74	71	174	191	187	243	265	258
Carrying amount of the companies	**176**	**168**	**158**	**620**	**635**	**563**	**796**	**803**	**721**
Carrying amount of other joint ventures	13	13	13	–	–	–	13	13	13
Carrying amount of other associated companies	–	–	–	38	49	43	38	49	43
BS TF3:2 **Carrying amount of joint ventures and associated companies**	**189**	**181**	**171**	**658**	**684**	**606**	**847**	**865**	**777**
Market value, December 31				**4,690**	**3,745**	**3,144**			

1) Amount relating to 2019 has been adjusted with respect to the allocation between short and long-term liabilities and depreciation/amortization.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES, CONT.

TF3:2 Carrying amounts of joint ventures and associated companies

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2020, %	Share of equity at December 31, 2019, %	Share of equity at December 31, 2018, %	Carrying amount December 31, 2020, SEKm	Carrying amount December 31, 2019, SEKm	Carrying amount December 31, 2018, SEKm
Joint ventures								
Bunzl & Biach GmbH	FN79555v	Vienna, Austria	49	49	49	176	168	158
Other						13	13	13
Associated companies								
Asaleo Care Ltd	61 154 461 300	Melbourne, Australia	36	36	36	620	635	563
Other						38	49	43
BS TF3:1 Carrying amount, December 31						**847**	**865**	**777**

F4. JOINT OPERATIONS

AP ACCOUNTING PRINCIPLES

Joint operations are defined as companies in which Essity, together with other parties through an agreement, has shared control over operations. In joint operations, parties to the agreement have rights to the assets and obligations for the liabilities associated with the investment, meaning that the operator must account for its share of the assets, liabilities, revenues and costs according to the proportional method.

Measurement of acquired assets and liabilities according to the proportional method is carried out in the same way as for Group companies. Essity recognizes its proportional share of the company's assets, liabilities, income and expenses in its financial statements.

Joint operations

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2020	Share of equity at December 31, 2019	Share of equity at December 31, 2018
Uni-Charm Mölnlycke B.V.	02-330 631	Hoogezand, Netherlands	40	40	40
ProNARO GmbH	HRB 8744	Stockstadt, Germany	50	50	50
Nokianvirran Energia Oy (NVE)	213 1790-4	Kotipakka, Finland	27	27	27

Uni-Charm Mölnlycke

Uni-Charm is classified as a joint operation since the parties to the agreement purchase all products produced by the company. The products are priced in a manner that allows the operations to receive full cost recovery for their production and financing costs. This means that the company in the joint operation is operated with near-zero profit and thus is not exposed to commercial risk. This joint operation has operations in Hoogezand in the Netherlands, Veniov in Russia and Delaware in the USA. Uni-Charm Russia was divested in December 2020.

ProNARO

A number of paper mills merged and formed the company ProNARO, whose main task is to negotiate favorable prices, optimize inventory levels, improve timber quality and reduce lead times and costs when purchasing timber. ProNARO's purchasing is based on forecast volumes from the paper mills. The company's production and administration costs are charged to the paper mills through the price set for the timber. Any budget or price deviations are charged to the paper mills for these additional costs, which means that ProNARO is not exposed to commercial risk.

Nokianvirran Energia

Essity has entered into an agreement with two other stakeholders to form a joint so-called mankala company in the Finnish energy market, where the joint parties produce heat and steam from biofuel. Each party in the joint operation is obligated to bear a portion of the fixed costs in proportion to its holding in the company and to pay for the raw materials used in the production of heat and steam in proportion to its consumption. Accordingly, the company is not profit-driven since the parties themselves bear their respective costs. The company is expected to generate near-zero profit and thus is not exposed to any commercial risk.

F5. SHARES AND PARTICIPATIONS

AP ACCOUNTING PRINCIPLES

Shares and participations pertain to holdings in other companies that are not classified as Group companies, joint arrangements or associated companies. Since these holdings are of an operating nature, the holdings are not classified as available-for-sale financial assets. Carrying amounts is deemed to concur with fair value.

Shares and participations

SEKm	2020	2019	2018
Value, January 1	**8**	**29**	**32**
Increase through acquisitions	–	–	4
Divestments	–1	–14	–8
Other reclassifications	–	–7	–
Translation differences	–	–	1
BS Value, December 31	**7**	**8**	**29**

F6. ACQUISITIONS AND DIVESTMENTS OF GROUP COMPANIES AND OTHER OPERATIONS

AP ACCOUNTING PRINCIPLES

Acquisition of Group companies and other operations

Essity applies IFRS 3 Business Combinations for acquisitions. In business combinations, acquired assets and assumed liabilities are identified and measured at fair value on the date of acquisition (also known as purchase price allocation). The purchase price allocation also includes an assessment of whether there are any assets that are intangible in nature, such as trademarks, patents, customer relations or similar assets that are not recognized in the acquired unit. If the purchase consideration paid is higher than the net value of the acquired assets and assumed liabilities, the difference is recognized as goodwill. Any surplus value on property, plant and equipment is depreciated over the estimated useful life of the asset. Goodwill and strong trademarks with indefinite useful lives are not amortized; instead, they are subjected to annual impairment testing. Some trademarks and customer relations are amortized over their estimated useful lives. A purchase price allocation is considered preliminary until it is confirmed. A preliminary purchase price allocation is changed as soon as new information regarding assets/liabilities on the acquisition date is obtained, although the acquisition balance sheet must be confirmed not later than one year from the date of the acquisition.

If the transferred consideration is contingent on future events, it is measured at fair value and any changes in value are recognized in profit or loss.

Transaction costs in conjunction with acquisitions are expensed when they occur.

Companies acquired during the period are included in the consolidated financial statements as of the acquisition date. Divested companies are included in the consolidated financial statements until the divestment date.

Non-controlling interests

Acquisitions of non-controlling interests are measured on an acquisition-by-acquisition basis, either as a proportional share of the fair value of identifiable net assets excluding goodwill (partial goodwill) or at fair value, which means that goodwill is also recognized on non-controlling interests (full goodwill).

In step acquisitions in which a controlling influence is achieved, any net assets acquired earlier in the acquired units are remeasured at fair value and the result of the remeasurement is recognized in profit or loss. If the controlling influence is lost upon the divestment of an operation, the result is recognized in profit or loss and the portion of the divested operation that remains in the Group is measured at fair value on the divestment date, with the remeasurement effect recognized in profit or loss.

Increases in the stake of Group companies after controlling influence is achieved are recognized as an equity transaction, meaning the difference between the purchase consideration paid and the carrying amount of the non-controlling interests is recognized as an increase or decrease in equity attributable to the Parent company's shareholders. The same accounting procedure applies for divestments that take place without the loss of a controlling influence.

Acquisitions in 2020

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 purchase price for the shares amounts to SEK 674m, and takeover of net debt to SEK 6m. The transaction, which was subject to the customary regulatory approvals, was finalized on April 30, 2020. The purchase price allocation has been established in the last quarter of 2020. 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.

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 last three quarters of 2020 were negligible in relation to those of the Essity Group. The purchase price allocation indicated goodwill of SEK 71m. The purchase price allocation has been established in the last quarter of 2020.

Transaction costs for both acquisitions amounted to SEK 7m and are recognized in items affecting comparability in profit or loss.

Acquisitions in 2019

Other than a minor acquisition of the associate China-Euro Healthcare Management of SEK 3m, no new acquisitions were carried out. Payments pertaining to earlier acquisitions mainly concern the final settlement of SEK 129m after the acquisition price was finalized for the compulsory redemption of shares in Essity Hygiene Products SE in Germany, former PWA, most of which was recognized as a liability in 2013. In addition to this, earn-out payments of SEK 11m were paid in accordance with the conditions of the purchase agreement from the acquisition of Sensassure in Canada in 2016.

Acquisitions in 2018

During the first quarter of 2018, the preliminary purchase price allocation from 2017 was established for BSN medical.

Familia, in which Essity has a 50% stake, completed three acquisitions. On February 16, the outstanding 50% of Productos Sancela del Peru, with operations in Peru and Bolivia, was acquired. The consideration transferred amounted to SEK 310m. Following the acquisition, Essity consolidated the acquisition of the company as a Group company with non-controlling interest. Prior to the acquisition, the company was consolidated as an associated company according to the equity method. Remeasurement was carried out of the previously recognized equity portion at fair value in the amount of SEK 225m, which is recognized as an item affecting comparability in profit or loss. The acquisition did not have any material impact on Essity's net sales since the acquired company's operations are based on the onward sale of products from Familia, which prior to the acquisition recognized sales to Peru and Bolivia as external sales. The impact on Essity's earnings of the acquisition was not material. In February, a building was acquired that was supplemental to the share acquired at the end of 2017 in Continental de Negocias S.A. with operations in the Dominican Republic. The consideration transferred amounted to SEK 85m. On April 3, Industrial Papelera Ecuatoriana S.A. (INPAECSA) was acquired with operations in Ecuador. The consideration transferred amounted to SEK 68m. The acquisition did not have any material impact on Essity's net sales or earnings in 2018.

F6. ACQUISITIONS AND DIVESTMENTS OF GROUP COMPANIES AND OTHER OPERATIONS, CONT.

Acquisition of Group companies and other operations

The table below shows the fair value of acquired net assets recognized on the acquisition date, recognized goodwill and the effect on the Group's cash flow statements.

Acquisition balance sheets

SEKm	2020	2019	2018
Intangible assets	236	–	77
Property, plant and equipment	92	–	381
Other non-current assets	–	3	1
Operating assets	184	–	313
Cash and cash equivalents	47	–	26
Provisions and other non-current liabilities	–69	–	–45
Net debt excl. cash and cash equivalents	–79	–	–233
Operating liabilities	–76	–	–134
Fair value of net assets	**335**	**3**	**386**
Goodwill	603	–	311
Non-transferred consideration, recognized as a liability	–225	–	–
Consolidated value of share in associated companies	–	–	–8
Revaluation of previously owned shares in associated companies	–	–	–225
Non-controlling interests	1	–	–
Acquisition of non-controlling interests recognized in equity attributable to owners of the Parent company	1	–	–
Consideration transferred	**715**	**3**	**464**
Consideration transferred	–715	–3	–464
Earn-out payment	–	–22	–
Settled debt pertaining to acquisitions in earlier years	–	–118	–23
Cash and cash equivalents in acquired companies	47	–	26
CF Effect on Group's cash and cash equivalents, acquisitions of Group companies and other operations	**–668**	**–143**	**–461**
of which recognized as acquisitions of holdings in investing activities	–668	–143	–461
Acquired net debt excl. cash and cash equivalents	–79	–	–233
OCF Acquisitions of Group companies and other operations during the period, including net debt assumed	**–747**	**–143**	**–694**

Divestments of Group companies and other operations

In December 2020, Essity divested its 49% stake in Sancella Tunisia to the other owner Sotupa. Sancella 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, Sancella Tunisia reported net sales of SEK 575m. The divestment gave rise to a capital gain of SEK 46m excluding the reclassification of realized translation differences of SEK –17m.

In December 2020, Essity divested part of its Baby Care operation in Russia, giving rise to a capital gain of SEK 24m excluding the reclassification of realized translation differences of SEK –11m. In addition, a previously shut-down operation in Morocco and India was concluded and a minor operation included in the Abigo acquisition was divested with a capital loss of SEK 5m excluding the reclassification of realized positive translation differences of SEK 33m.

The total capital gain for all divestments amounted to SEK 65m excluding reclassification of realized translation differences. Including the reclassification of realized positive translation differences of SEK 4m for divested and liquidated Group companies, the net gain amounts to SEK 69m.

In 2019, Essity divested its holding in the jointly owned company SCA Yildiz in Turkey and a minor operation in Medical Solutions in Brazil.

No divestments were carried out in 2018. Gain/losses and cash flow relate to earn-out payments for previously divested companies primarily in the US.

All earnings were recognized in items affecting comparability in profit or loss.

Assets and liabilities included in divestments of Group companies and other operations

SEKm	2020	2019	2018
Intangible assets	38	59	–
Property, plant and equipment	129	130	–
Other non-current assets	24	1	–
Operating assets	322	93	–
Cash and cash equivalents	38	0	–
Net debt excl. cash and cash equivalents	–284	–215	–
Other non-current liabilities	–	–7	–
Operating liabilities	–268	–87	–
Non-controlling interests	57	27	–
Gain/loss on sale[1]	65	19	68
Compensation received	**121**	**20**	**68**
Deduct:			
Receivable for unpaid purchase consideration	–	–15	–
Financial receivable for unpaid purchase consideration	–18	–	–
Cash and cash equivalents in divested companies	–38	–	–
CF Impact on Group's cash and cash equivalents, divestments of Group companies and other operations	**65**	**5**	**68**
Add:			
Financial receivable for unpaid purchase consideration	18	–	–
Divested net debt excl. cash and cash equivalents	284	215	–
OCF Divestments of Group companies and other operations during the period, including net debt transferred and financial receivable for unpaid purchase consideration	**367**	**220**	**68**

[1] Excluding reversal of realized translation differences in divested companies to profit or loss. Gain/loss on divestment is included in items affecting comparability in profit or loss.

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE

AP ACCOUNTING PRINCIPLES

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, the assets and liabilities are measured at the lower of fair value minus selling costs and the carrying amount. The assets are no longer depreciated after reclassification. Any gain from remeasurement is limited to the amount equivalent to previously made impairment charges. Gains and losses recognized on remeasurement and divestment are recognized in profit or loss for the period.

When an independent business segment or a significant operation within a geographic area is divested, it is classified as a discontinued operation. The divestment date, or the point in time when the operation fulfills the criteria for classification as held for sale, determines when the operation should be classified as a discontinued operation.

Profit/loss after tax from discontinued operations is recognized on a separate line in the income statement. The income statement is adjusted for the comparative period as though the discontinued operation had already been disposed of at the start of the comparative period.

Non-current assets held for sale and discontinued operations

SEKm	2020	2019	2018
Buildings	–	28	31
Land	–	14	24
Machinery and equipment	–	–	14
BS Total	**–**	**42**	**69**

Non-current assets held for sale are attributable to:
- 2019: closure of a production plant in the USA
- 2018: closure of a production plant in the USA totaling SEK 30m and the closure of an operation in India totaling SEK 39m

G2. LEASES

AP ACCOUNTING PRINCIPLES

When a contract is signed it is assessed, if the contract is or contains a lease. A contract is or contains a lease if:
- it contains an identified asset
- the lessee is entitled to essentially all economic benefits arising from the use of the identified asset
- the lessee is entitled to control the use of the asset

If any of the above conditions are not met, the contract is not regarded as a lease or containing a lease and is therefore classified as a service contract.

On the commencement date of the lease, meaning when the asset becomes available for use by Essity, a right-of-use asset and a financial liability are recognized in the balance sheet.

The right-of-use asset is measured at cost and includes the following:
- the value of the amount of the lease liability
- lease payments made on or before the commencement date, after deductions for any benefits received in conjunction with signing the lease
- initial direct fees
- an estimate of expenses expected to be paid to restore the asset to the condition as stipulated in the terms of the lease

The right-of-use asset is recognized in the balance sheet under the heading Property, plant and equipment and is depreciated on a straight-line basis over the shorter period of the asset's anticipated useful life and the lease term. The lease term is assessed on the basis of the length of the underlying contract taking into consideration the cancellation and renewal options.

The lease liability is measured at the present value of the following lease payments:
- fixed fees, less any incentive receivables
- variable lease payments due to an index or rate
- amounts expected to be paid in accordance with residual value guarantees
- the exercise price for a purchase option, if the lessee is reasonably certain of exercising the option
- financial penalties to be paid on termination of the lease, if the lease term reflects that the lessee will utilize this option.

Lease payments are normally discounted using Essity's incremental borrowing rate as the implicit rate of the lease cannot be readily determined in most cases. The incremental borrowing rate used is determined on the basis of the contract currency of the agreement and the length of the lease.

The lease liabilities are recognized under the headings Non-current financial liabilities or Current financial liabilities. Lease liabilities are measured at amortized cost according to the effective interest method. The liability is remeasured when future payments are amended by index or by other means, such as a new assessment of future residual value commitments, or the exercise of purchase, renewal or cancellation options. When the lease liability is remeasured as described above, a corresponding adjustment of the value of the right-of-use asset is made. When making lease payments, the contribution is allocated between interest expense and amortization of the lease liability outstanding. In the consolidated cash flow statement, payments pertaining to the amortization of lease liability are recognized in financing activities and payments pertaining to interest expenses are recognized as interest paid. In profit or loss, depreciation of the right-of-use asset is recognized in operating profit while interest expense is recognized in financial expenses.

Essity has decided to apply the exemption rules for short-term leases and leases where the underlying asset has a low value. These leases are not included in the right-of-use asset or the liability. Lease payments for these contracts are expensed on a straight-line basis over the lease term. For 2018, IAS 17 Leases was applied as operating lease payments were expensed.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

Assessments and assumptions must be used when reporting leases in accordance with IFRS 16 Leases. The two most significant assessments concern the length of the lease term and the discount rate to be used. The implicit rate of the leases cannot be readily determined and lease payments are therefore discounted over the expected lease term using Essity's incremental borrowing rate. The incremental borrowing rate corresponds to what Essity would need to pay to use a loan to finance the purchase of an equivalent asset for a similar duration in the contract currency of the lease. The length of the lease is determined as the non-cancellable lease term together with terms that may be covered by an option to extend a lease if it is reasonably certain that the contract will be renewed and periods covered by an option to terminate the lease if it is reasonably certain that a possibility to cancel the lease will not be utilized. When assessing if it is reasonably certain that a renewal option or cancellation option will be used, all relevant facts and circumstances that create economic incentives or deterrents are taken into account. The assessment of the lease term is reviewed in cases where facts and circumstances have significantly changed.

G2. LEASES, CONT.

Essity enters into leases on a continuous basis for office buildings, distribution centers and vehicles, such as trucks, forklifts and passenger cars.

Lease terms for properties are generally between 3 and 15 years, while lease terms for vehicles are generally between 3 and 5 years. Essity also has leases with a shorter lease term than 12 months and leases pertaining to assets of low value, such as office equipment. For these, Essity has chosen to apply the exemption rules in IFRS 16 Leases, meaning the value of these contracts is not part of the right-of-use asset or lease liability. There are no significant extension periods not taken into account in the lease liability.

TG2:1

	Right-of-use assets				
SEKm	**Properties**	**Vehicles**	**Other**	**Total**	**Lease liabilities**
Value, January 1, 2020	**3,446**	**358**	**17**	**3,821**	**3,872**
Additional right-of-use assets, net	630	176	2	808	808
Leases included in acquisitions	9	4	–	13	13
Reclassification	1,206	–	–	1,206	–
Depreciation	–706	–210	–6	–922	
Interest expenses					98
Payments					–1,014
Translation differences	–284	–29	–1	–314	–246
Value, December 31, 2020	**4,301**	**299**	**12**	**4,612**	**3,531**

In addition to the expenses in the table above, Essity recognized SEK 286m (255) relating to costs for short-term leases, leases of low-value assets and variable lease payments. The total earnings impact of leases, including depreciation and interest expenses, was SEK 1,306m (1,249) in 2020. Lease payments totaled SEK 1,300m (1,203).

The maturity structure concerning undiscounted future lease payments during future lease terms is presented in Note E5 Liquidity risk on page 99.

Essity has entered into binding leases regarding office properties where the lease term has yet to begin, future lease payments for these contracts are SEK 53m distributed over 7 years.

In 2020, leases for land were reclassified from other intangible assets to right-of-use asset in the amount of SEK 1,206m.

TG2:2

	Right-of-use assets				
SEKm	**Properties**	**Vehicles**	**Other**	**Total**	**Lease liabilities**
Value, January 1, 2019	**3,357**	**410**	**14**	**3,781**	**3,786**
Additional right-of-use assets, net	716	159	10	885	885
Leases included in divestments	–46	–	–	–46	–46
Depreciation	–656	–221	–7	–884	
Interest expenses					110
Payments					–948
Translation differences	75	10	0	85	85
Value, December 31, 2019	**3,446**	**358**	**17**	**3,821**	**3,872**

G3. CONTINGENT LIABILITIES AND PLEDGED ASSETS

AP ACCOUNTING PRINCIPLES

A contingent liability is recognized when there is a potential or actual obligation arising from past events that is not recognized as a liability or provision, either because it is improbable that an outflow of resources will be required to settle the obligation or because the amount cannot be calculated in a reliable manner.

Contingent liabilities

SEKm	**2020**	**2019**	**2018**
Guarantees for			
associated companies	1	1	3
customers and others	47	45	44
Other contingent liabilities	39	50	333
Total	**87**	**96**	**380**

With reference to infringements of competition rules, claims for damages have been brought against the company. The company contests its responsibility and does not expect the claim to have a material impact.

Pledged assets

			Total		
SEKm	**Pledged assets related to financial liabilities**	**Other**	**2020**	**2019**	**2018**
Real estate mortgages	300	–	300	21	27
Chattel mortgages	103	–	103	39	34
Other	49	234	283	284	277
Total	**452**	**234**	**686**	**344**	**338**

Liabilities for which some of these assets were pledged as collateral amounted to SEK 302m (0; 0).

G4. TRANSACTIONS WITH RELATED PARTIES

Essity owns 36% of Asaleo Care Ltd, listed on the stock market in Australia (ASX). Sales to Asaleo Care mainly concern products in Professional Hygiene and Incontinence Products. Transactions and dealings are outlined in table TG4:1 below.

Essity owns 49% of Bunzl & Biach GmbH. Purchases from Bunzl & Biach relate mainly to raw materials in the form of recovered paper. Transactions and dealings are outlined in table TG4:2 below.

TG4:1 **Transactions and dealings with associated companies, Asaleo Care**

SEKm	**2020**	**2019**	**2018**
Sales	396	424	448
Purchases	–	–	8
Other income	28	36	41
Trade receivables	64	52	110
Trade payables	–	–	0

TG4:2 **Transactions and dealings with joint ventures, Bunzl & Biach**

SEKm	**2020**	**2019**	**2018**
Purchases	260	319	316
Trade payables	22	23	57

Financial statements, Parent company

Income statement IS

SEKm	Note	2020	2019
Administrative expenses		–705	–663
Other operating income		265	209
Operating loss	PC2	**–440**	**–454**
Financial items	PC10		
Result from participations in Group companies		4,170	5,445
Interest income and similar profit items		231	277
Interest expenses and similar loss items		–1,356	–1,170
Total financial items		**3,045**	**4,552**
Profit after financial items		**2,605**	**4,098**
Appropriations	PC4	–1	–3
Income taxes	PC4	32	27
Profit for the period		**2,636**	**4,122**

Statement of comprehensive income

SEKm	2020	2019
Profit for the period	**2,636**	**4,122**
Other comprehensive income	–	–
Total comprehensive income	**2,636**	**4,122**

Cash flow statement CF

SEKm	2020	2019
Operating activities		
Profit after financial items	2,605	4,098
Adjustment for non-cash items T:1	–1,244	536
Paid tax	0	–7
Cash flow from operating activities before changes in working capital	**1,361**	**4,627**
Change in operating receivables	–383	650
Change in operating liabilities[1]	278	–71
Cash flow from operating activities	**1,256**	**5,206**
Investing activities		
Acquisition of subsidiaries	–	–826
Acquisition of fixed assets	–1	–14
Cash flow from investing activities	**–1**	**–840**
Financing activities		
Proceeds from borrowings	6,305	4,265
Repayment of borrowings	–3,171	–4,592
Dividend paid	–4,389	–4,039
Cash flow from financing activities	**–1,255**	**–4,366**
Cash flow for the period	**0**	**0**
Cash and cash equivalents, January 1	0	0
Cash and cash equivalents, December 31[2]	0	0

T:1 **Adjustment for non-cash items**	2020	2019
Depreciation of fixed assets	3	2
Change in accrued items	–1,238	549
Payments relating to efficiency program already recognized	0	–3
Change in provisions	–9	–12
Total	**–1,244**	**536**

1) Dealings of the Parent company with the Swedish Group companies relating to Group contributions and internal tax are recognized as Change in operating receivables or Change in operating liabilities, respectively.

2) The company's current account is a sub-account and is recognized in the balance sheet as liabilities to Group companies.

Supplementary disclosures

Interest and dividends paid and received	2020	2019
Dividends received	2,586	4,044
Group contribution received	1,466	2,145
Group contribution paid	–57	–
Interest paid	–1,340	–1,112
Interest received	212	232
Total	**2,867**	**5,309**

Change in liabilities attributable to financing activities

SEKm	Value, January 1	Cash flow	Translation difference	Value, December 31
Non-current interest-bearing liabilities	36,386	–3,019	–1,657	31,710
Current interest-bearing liabilities	5,022	–152	143	5,013
Current liabilities to Group companies	44,580	6,311	–1	50,890
Current receivables from Group companies	–	–6	–	–6
Total	**85,988**	**3,134**	**–1,515**	**87,607**

Balance sheet BS

SEKm	Note	2020	2019
Assets			
Non-current assets			
Capitalized development costs		0	0
Intangible assets	PC5	**0**	**0**
Machinery and equipment		14	16
Property, plant and equipment	PC6	**14**	**16**
Participations in subsidiaries	PC7	175,447	175,448
Receivables from Group companies	PC8	542	545
Other non-current receivables		234	227
Deferred tax assets	PC4	178	132
Financial non-current assets		**176,401**	**176,352**
Total non-current assets		**176,415**	**176,368**
Current assets			
Receivables from Group companies	PC8	2,108	1,762
Current tax assets	PC4	–	11
Other current receivables	PC9	32	21
Total current assets		**2,140**	**1,794**
Total assets		**178,555**	**178,162**
Equity, provisions and liabilities			
Equity	PC12		
Share capital		2,350	2,350
Statutory reserve		0	0
Total restricted equity		**2,350**	**2,350**
Retained earnings		83,553	83,820
Profit for the period		2,636	4,122
Total non-restricted equity		**86,189**	**87,942**
Total equity		**88,539**	**90,292**
Untaxed reserves	PC4	**5**	**4**
Provisions			
Provisions for pensions	PC3	872	875
Other provisions		2	2
Total provisions		**874**	**877**
Non-current liabilities			
Non-current interest-bearing liabilities	PC10	31,710	36,386
Total non-current liabilities		**31,710**	**36,386**
Current liabilities			
Liabilities to Group companies	PC8	51,910	45,054
Current tax liabilities	PC4	3	–
Current interest-bearing liabilities	PC10	5,013	5,022
Accounts payables		20	16
Other current liabilities	PC11	481	511
Total current liabilities		**57,427**	**50,603**
Total equity, provisions and liabilities		**178,555**	**178,162**

PC3. PERSONNEL AND BOARD COSTS, CONT.

Average number of employees

	2020	2019
Sweden	106	106
of whom women, %	54	52

Breakdown of employees by age groups, %

2020	21–30 years	31–40 years	41–50 years	51–60 years	61– years
	3	22	37	32	6

Women comprised 50% (50) of Board members and 25% (25) of senior executives.

Provisions for pensions

AP ACCOUNTING PRINCIPLES

The Parent company applies the regulations in the Pension Obligations Vesting Act (Tryggandelagen). Recognition complies with the simplification rule for defined benefit pension plans in accordance with the voluntary exception in RFR 2 regarding IAS 19. The main difference compared with IAS 19 is that Swedish GAAP disregards future increases in salaries and pensions when calculating the present value of the pension obligation. This present value includes, however, a special reserve for future payments of pension supplements indexed for inflation. Both defined contribution and defined benefit plans exist in the Parent company.

PRI Pensions

Pension liabilities pertaining to PRI pensions have been secured through a common Swedish Essity pension fund. The market value of the Parent company's portion of the foundation's assets at December 31, 2020, amounted to SEK 267m (236). In 2020, compensation was received in the amount of SEK 6m (6). The capital value of the pension obligations at December 31, 2020 amounted to SEK 182m (171). Pension payments of SEK –6m (–6) were made in 2020. In 2020, the assets exceeded pension obligations by SEK 85m (65).

Other pension obligations

The Group's Note C2 Remuneration of senior executives on page 87 describes the other defined benefit pension plans of the Parent company. The table below shows the change between the years.

Capital value of pension obligations relating to self-administered pension plans

SEKm	2020	2019
Value, January 1	**875**	**873**
Costs excluding interest expense	50	52
Interest expense (recognized in personnel costs)	2	6
Payment of pensions	–55	–56
BS **Value, December 31**	**872**	**875**

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 0.3% (0.7). The defined benefit obligations are calculated based on salary levels valid on the respective balance sheet dates. Next year's expected payments for the above defined benefit pension plans amount to SEK 53m. Part of the pension obligations are covered by endowment insurances. The endowment insurances are reported as other non-current receivables in the balance sheet.

PC4. INCOME TAXES

AP ACCOUNTING PRINCIPLES

Due to the links between accounting and taxation, the deferred tax liability on untaxed reserves is recognized in the company's annual accounts as a component of untaxed reserves.

Tax expense

Tax expense (+), tax income (–)

SEKm	2020	2019
Deferred tax	–46	–27
Current tax	14	0
IS **Total**	**–32**	**–27**

Explanation of tax expense

The difference between the recognized tax expense and expected tax expense is explained below. The expected tax expense is calculated based on profit before tax multiplied by the current tax rate.

	2020		2019	
Reconciliation	**SEKm**	**%**	**SEKm**	**%**
IS Profit before tax	2,604		4,095	
IS Tax expense/income	–32	–1.2	–27	–0.7
Expected tax	557	21.4	876	21.4
Difference	**–589**	**–22.6**	**–903**	**–22.1**
The difference is due to:				
Taxes related to prior periods	0	0.0	4	0.0
Non-taxable dividends from subsidiaries	–555	–21.3	–865	–21.1
Non-taxable Group contributions from Group companies[1]	–283	–10.9	–174	–4.2
Non-deductible interest expenses	234	9.0	129	3.1
Other non-taxable/non-deductible items	15	0.6	3	0.1
Changed tax rate	0	0.0	0	0.0
Total	**–589**	**–22.6**	**–903**	**–22.1**

[1] Non-taxable Group contributions relate to repayment from the Group company that pays the majority of the Group's total Swedish taxes, which amount to 78.6% (78.6) of the Group contribution.

The Parent company participates in the Group's tax pooling arrangement. Group contributions paid were treated as a tax deductible expense and received Group contributions were treated as non-taxable revenue. The net of paid and received Group contributions amounts to 21.4% (21.4) and is the amount of the company's tax cost for the Group. In addition, the Parent company has received Group contributions from another Swedish Group company, part of which was accounted for as non-taxable income in 2019.

Current tax expense (+), tax income (–)

SEKm	2020	2019
Income tax for the period	0	–
Adjustments for prior periods	14	–
Total	**14**	**–**

Current tax liability (+), tax asset (–)

SEKm	2020	2019
Value, January 1	**–11**	**–4**
Current tax expense	14	0
Paid tax	0	–7
BS **Value, December 31**	**3**	**–11**

Deferred tax expense (+), tax income (–)

SEKm	2020	2019
Changes in temporary differences	–33	–31
Adjustments for prior periods	–13	4
Total	**–46**	**–27**

Deferred tax assets (–)

SEKm	Value, January 1	Deferred tax expense	Value, December 31
Provisions for pensions	–179	0	–179
Other	47	–46	1
BS **Total**	**–132**	**–46**	**–178**

Appropriations and untaxed reserves

Accumulated depreciation in excess of plan totaling SEK 5m (4) is included in the Parent company's untaxed reserves.

PC5. INTANGIBLE ASSETS

Capitalized development costs

SEKm	2020	2019
Accumulated costs	0	0
Accumulated amortization	0	0
Residual value according to plan	**0**	**0**
Value, January 1	**0**	**0**
Investments	–	–
Sales and disposals	–	–
Amortization for the period	–	0
BS **Value, December 31**	**0**	**0**

PC6. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Essity Aktiebolag's property, plant and equipment are recognized in accordance with the Group's accounting principles.

Equipment

SEKm	2020	2019
Accumulated costs	22	21
Accumulated depreciation	–8	–5
Residual value according to plan	**14**	**16**
Value, January 1	**16**	**5**
Investments	1	13
Sales and disposals	0	0
Depreciation for the period	–3	–2
BS **Value, December 31**	**14**	**16**

PC7. PARTICIPATIONS IN SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Essity Aktiebolag recognizes all holdings in subsidiaries at cost after deduction of any accumulated impairment losses. Impairment testing occurs annually.

Participations in subsidiaries

	Subsidiaries	
SEKm	2020	2019
Accumulated costs	175,500	175,508
Accumulated impairment	–53	–60
Carrying amount	**175,447**	**175,448**
Value, January 1	**175,448**	**174,622**
Investments	–	834
Divestments	–8	0
Reversal of impairment	7	–
Impairment for the period	–	–8
BS TPC7:1 **Value, December 31**	**175,447**	**175,448**

During the fiscal year, SCA Hygiene Products India Private Limited was liquidated and the company thus no longer recognizes a carrying amount for the holding in the balance sheet.

TPC7:1 **Essity Aktiebolag's holdings of shares and participations in subsidiaries, December 31, 2020**

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOBOF	556047-8520	Stockholm, Sweden	1,000	100	0
Essity Försäkringsaktiebolag	516401-8540	Stockholm, Sweden	140,000	100	14
Essity TC AB	556643-7298	Stockholm, Sweden	1,000	100	826
Foreign subsidiaries:					
Essity Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	174,328
Essity Italy S.p.A	3318780966	Capannori, Italy	125,000	25	279
Total carrying amount of subsidiaries					**175,447**

German Group companies that are subject to disclosure exemptions

The following German companies are fully consolidated and subject to disclosure exemptions pursuant to Sec. 264 para. 3 of the German Commercial Code ("HGB").

1. Essity GmbH, domicile in Mannheim, Germany
2. Essity Holding GmbH, domicile in Ismaning, Germany
3. Essity Operations Neuss GmbH, domicile in Neuss, Germany
4. Essity Operations Mannheim GmbH, domicile in Mannheim, Germany
5. Essity Operations Mainz-Kostheim GmbH, domicile in Wiesbaden, Germany
6. Essity Professional Hygiene Germany GmbH, domicile in Mannheim, Germany
7. Essity Germany GmbH, domicile in Mannheim, Germany
8. Essity Operations Witzenhausen GmbH, domicile in Witzenhausen, Germany
9. Essity Hygiene Holding GmbH, domicile in Mannheim, Germany
10. BSN medical GmbH, domicile in Hamburg, Germany
11. BSN medical IP GmbH, domicile in Hamburg, Germany
12. BSN-Jobst GmbH, domicile in Emmerich am Rhein, Germany

PC8. RECEIVABLES FROM AND LIABILITIES TO GROUP COMPANIES

Receivables from and liabilities to Group companies

SEKm	2020	2019
Non-current assets		
Derivatives	542	545
BS **Total**	**542**	**545**
Current assets		
Interest-bearing receivables	6	–
Financial derivatives	24	56
Trade receivables	138	239
Other receivables	1,940	1,467
BS **Total**	**2,108**	**1,762**
Current liabilities		
Interest-bearing liabilities	50,890	44,580
Financial derivatives	637	396
Accounts payables	22	20
Other liabilities	361	58
BS **Total**	**51,910**	**45,054**

PC9. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2020	2019
TPC9:1 Prepaid expenses and accrued income	23	17
Other receivables	9	4
BS **Total**	**32**	**21**
TPC9:1 **Prepaid expenses and accrued income**		
Prepaid lease of premises	8	7
Prepaid financial expenses	1	1
Prepaid insurance premiums	0	0
Other items	14	9
Total	**23**	**17**

PC10. FINANCIAL INSTRUMENTS

AP ACCOUNTING PRINCIPLES

The Parent company's financial instruments are recognized in accordance with the Group's accounting principles. Refer to Notes E1–E4 on pages 96–99. Hedge accounting was not applied by the Parent company.

Financial items

SEKm	2020	2019
Result from participations in Group companies		
Dividends from subsidiaries	2,593	4,044
Gain/loss on sales of shares in subsidiaries	–7	–
Group contributions received from Group companies	1,937	1,466
Group contributions paid to subsidiaries	–360	–57
Impairment of shares in subsidiaries	–	–8
Reversal of impairment of shares in subsidiaries	7	–
Interest income and similar profit items		
Interest income, external	1	11
Interest income, Group companies	230	266
Interest expenses and similar loss items		
Interest expenses, external	–485	–523
Interest expenses, Group companies	–847	–614
Other financial expenses[1]	–24	–33
IS **Total**	**3,045**	**4,552**

[1] The item other financial expenses includes financial fees and exchange rate differences. Exchange rate differences amounted to SEK 7m (–1), net.

Interest-bearing liabilities

Non-current interest-bearing liabilities

	Carrying amount		Fair value	
SEKm	2020	2019	2020	2019
Bond issues	27,968	31,164	29,084	32,299
Other non-current loans with a term > 1 yr < 5 yrs	3,742	5,222	3,766	5,238
BS **Total**	**31,710**	**36,386**	**32,850**	**37,537**

Current interest-bearing liabilities

	Carrying amount		Fair value	
SEKm	2020	2019	2020	2019
Bond issues	5,013	–	5,037	–
Loans with maturities of less than one year	–	5,022	–	5,022
BS **Total**	**5,013**	**5,022**	**5,037**	**5,022**

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate %
Notes EUR 500m	2021	5,013	5,037	0.50
Notes EUR 600m	2022	6,006	6,078	0.63
Notes EUR 500m	2023	4,999	5,330	2.50
Notes EUR 600m	2024	6,000	6,234	1.13
Notes EUR 300m	2025	3,004	3,135	1.13
Notes EUR 500m	2027	4,985	5,373	1.63
Notes EUR 300m	2030	2,974	2,934	0.50
Total		**32,981**	**34,121**	

Financial instruments by category

AP ACCOUNTING PRINCIPLES

In 2020, the categories of financial instruments in the Parent company comprise in accordance with IFRS 9 financial assets and liabilities measured at fair value through profit or loss and amortized cost. All of the Parent company's financial assets and liabilities measured at fair value through profit or loss are assessed according to measurement level 2. A definition is provided in Note E1, page 97. Financial assets measured at amortized cost are continuously reviewed to assess the need for credit loss provisions. If there is a material need for credit loss provisions, a provision is made in accordance with the expected credit loss model.

PC10. FINANCIAL INSTRUMENTS, CONT.

Financial instruments by category

SEKm	Note	2020	2019
Financial assets measured at fair value through profit or loss			
Derivatives with Group companies – Non-current financial assets	PC8	542	545
Endowment insurances – Other non-current receivables		234	227
Derivatives with Group companies – Current financial assets	PC8	24	56
Total		**800**	**828**
Financial liabilities measured at fair value through profit or loss			
Derivatives with Group companies – Current financial liabilities	PC8	637	396
Total		**637**	**396**
Loan and trade receivables measured at amortized cost			
Current interest-bearing receivables with Group companies	PC8	6	–
Trade receivables with Group companies	PC8	138	239
Trade receivables – other current receivables		5	1
Total		**149**	**240**
Financial liabilities measured at amortized cost			
Non-current interest-bearing liabilities		31,710	36,386
Current interest-bearing liabilities to Group companies	PC8	50,890	44,580
Current interest-bearing liabilities		5,013	5,022
Accounts payables to Group companies	PC8	22	20
Accounts payables		20	16
Other current liabilities to Group companies	PC8	1	1
Other current liabilities		275	274
Total		**87,931**	**86,299**

The nominal value of the derivatives before the right of set-off is SEK 75,256m (52,915). The nominal value of the derivatives after the right of set-off is SEK 51,184m (40,309).

PC11. OTHER CURRENT LIABILITIES

Other current liabilities

SEKm	2020	2019
TPC11:1 Accrued expenses and prepaid income	432	460
Other operating liabilities	49	51
BS **Total**	**481**	**511**

TPC11:1 Accrued expenses and prepaid income

SEKm	2020	2019
Accrued interest expenses	275	274
Accrued social security costs	59	69
Accrued vacation pay liability	16	14
Other liabilities to personnel	45	80
Other items	37	23
Total	**432**	**460**

PC12. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented on page 114. The company was formed in 1988. The share capital and number of shares have increased since the formation via new issues and bonus issue as set out below:

YEAR	Event	No. of shares	Increase in share capital	Cash payment, SEKm
1988	Number of shares issued in connection with formation	500	0.1	0.1
1995	New issue 1:1, issue price SEK 100	500	0.1	0.1
2016	New issue 1:4, issue price SEK 100	4,000	0.4	0.4
2017	Bonus issue	702,337,489	2,349.9	0.0
2020	**Number of shares, December 31, 2020**	**702,342,489**	**2,350.4**	**0.5**

The quotient value of the company's shares amounts to SEK 3.35 (3.35).

PC13. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities

SEKm	2020	2019
Guarantees for Group companies	12,141	16,890
Other contingent liabilities	40	60
Total	**12,181**	**16,950**

Pledged assets

SEKm	2020	2019
Other	234	227
Total	**234**	**227**

PC14. ADOPTION OF THE ANNUAL ACCOUNTS

The annual accounts are subject to adoption by Essity Aktiebolag's Annual General Meeting and will be presented for approval at the Annual General Meeting on March 25, 2021.

PC15. EVENTS AFTER THE BALANCE SHEET DATE

At the beginning of February 2021, Essity raised EUR 700m in the bond market under its Euro Medium Term Note (EMTN) program with a coupon of 0.25 percentage points and with a maturity on February 8, 2031. The purpose was to refinance maturing bond issues and to finance the operations.

No other significant events occurred after the balance sheet date that impacted the financial statements.

H. NOTES TO GROUP NON-FINANCIAL INFORMATION

H1. GENERAL ACCOUNTING PRINCIPLES

Reporting principles

The social and environmental data reported pertains to the 2020 calendar year unless otherwise specified. The figures included comply with relevant reporting and consolidation principles in accordance with the principles in the financial statements. The figures cover the Essity Group's wholly owned subsidiaries and subsidiaries in which Essity owns at least 50%. If ownership in the Group company is at least 50% or more, the entire company is included in the reporting.

For Group companies with significant non-controlling interests (see Note F2), such as the Chinese company Vinda and the Colombian company Familia, social data, such as employee figures, employee turnover and health and safety data is reported in notes H12 and H13. Some other social data is not included, for example Note H2 Code of Conduct data, as these companies have their own Codes of Conduct. Environmental data includes, as a general rule, Familia and Vinda's Personal Care operations. Vinda publishes an Environmental, Social and Governance (ESG) report, which is available at vinda.com. Familia reports in accordance with the GRI Reporting Standards. For more information, visit grupofamilia.com.co.

Newly acquired businesses are included in the reporting as soon as possible, though not later than when they have been part of the Group for one calendar year. The data from divested companies is excluded in its entirety as of the divestment date. Historic data for discontinued units is retained.

The section on Sustainability governance on pages 44–51 describes how Essity ensures that the company delivers on its sustainability targets. The H-notes present the results in recent years.

Data collection

Data provided in the report is compiled through various systems, primarily Essity's reporting system for non-financial data and the Group's financial consolidation system. The data in this report includes, as a general rule, all companies. The targets in the report apply, as a general rule, to wholly owned companies. Environmental reporting encompasses 74 production sites, covering virtually the entire company's environmental impact and resource utilization from production. Data from stand-alone tissue converting sites is included in data for the tissue plant.

Each unit reports the following data to the system:

- raw material consumption
- incoming and outgoing shipments
- production volumes
- energy use broken down by electricity, steam and fuel
- fuel consumption broken down by biofuels and fossil fuels
- air emissions, including data on fossil and biogenic carbon dioxide
- water emissions
- production waste

The calculation of greenhouse gas emissions for Scope 1, 2 and 3 of Science Based Targets encompasses carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). Conversion factors used:

- Greenhouse gas emissions from incineration are calculated using emission factors for the fuel's thermal value. Source: IPCC Guidelines 2006. (Scope 1 emissions)
- Greenhouse gas emissions from purchased electricity are calculated using the country's emission factor published by the International Energy Agency (IEA), 2017. (Scope 2 emissions, location-based)

Comparability

This is Essity's fourth integrated Annual and Sustainability Report. The previous year's report is from February 20, 2020. Figures from previous years are reported in parenthesis. Certain adjustments have taken place of environmental data for previous years, notes H9–H11, to adjust for acquisitions, divestments and updated location-based emission factors in line with the GHG protocol. Minor updates also took place following the integration of earlier acquisitions into Essity's global reporting system for non-financial data.

Environmental impact

Essity conducts operations requiring a permit through its production facilities. Such operations impact the environment through emissions to air and water, solid waste and noise.

GRI reporting

Essity reports sustainability information in accordance with the Global Reporting Initiative (GRI) guidelines for GRI Reporting Standards: Core. The Report has been structured in accordance with GRI principles, meaning that the content is determined by the issues that are most material to Essity and its stakeholders, and that the content provides a complete overview of the operations. Essity's 21 subject areas in the materiality analysis are matched against GRI indicators, and they form the selection of the indicators that Essity presents in this report. Essity reports on all GRI indicators that are identified as material and on a relevant level. In addition, Essity reports a number of general standard disclosures according to the GRI Standards: Comprehensive option as this clarifies the information in the report. Any omissions or incomplete data are commented on directly in the GRI index. The Sustainability Report has been reviewed by EY. Additional information about Essity's work on social and environmental issues is available at essity.com/sustainability. The index can be found on pages 133–134.

The UN Guiding principles

Essity uses the reporting framework for the United Nations Guiding Principles on Business and Human Rights and has reported on the overarching aspects contained in the framework.

TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) draws up voluntary, consistent climate-related financial risk disclosures for companies that make information available to investors, creditors, insurers and other stakeholders. Essity is publishing its first TCFD index in this report to allow investors and other stakeholders easy access to TCFD-related information for comparisons or decision-making. The index is presented on page 133.

SASB

The Sustainability Accounting Standards Board (SASB) Foundation establishes and maintains sector-specific standards that help companies to publish financially relevant sustainability information that may be useful in investor decisions. Since 2020, Essity has applied the standards applicable for the Household and Personal Products sectors. A detailed index with references to sections where Essity reports in relation to specific disclosures is available on page 133.

H2. BUSINESS ETHICS

Code of Conduct

Essity's target is for all new employees to receive training in the Code of Conduct as part of their onboarding program. Training is mainly conducted online. The courses are held through classroom instruction at production facilities. In 2020, a total of 92% of Essity's new employees underwent this mandatory course.

Risk analysis

About 36% of Essity's revenue comes from sales to countries with a relatively high risk of corruption. In the 2019 Sedex assessment, all of Essity's main facilities received a low to medium risk classification relating to human rights and corruption. In 2020, work with the COVID-19 pandemic was prioritized ahead of updating Sedex.

Reported breaches of the Code of Conduct

Essity encourages employees to always report suspected breaches of the Code of Conduct. Essity provides a whistleblower system where employees can submit reports anonymously, if permitted by local legislation. The summary below presents reports submitted to the whistleblower system and to Essity's Compliance & Ethics department. In 2020, five people were dismissed for breaches of the Code of Conduct. No one was dismissed on suspicion of corruption. The 45 HR-related reports include accusations of discrimination and harassment. Of 61 reported cases in 2020, 56 were closed and 5 cases are still under investigation.

Reports submitted to the whistleblower system and to Essity's Compliance & Ethics department by category

Category[1]	2020	2019	2018
Regulatory breach, Fraud and Corruption	11	17	20
Security Incidents	2	–	–
Operations	1	6	3
Sustainability	–	–	–
Human Resources	45	65	58
Other	2	–	–
Total	**61**	**88**	**81**

1) Essity's Compliance & Ethics department allocates the submitted reports into the relevant category. The category may be changed during the course of an investigation.

Ongoing anti-trust cases

In early 2020, the Supreme Court in Chile rejected the company's appeal against the Chilean competition authority's decision to impose a fine in December 2017.

Internal audits conducted of the Code of Conduct

Travel restrictions due to COVID-19 have limited the number of audits of the Code of Conduct. The method used for the audits was adapted to allow these to take place remotely. In 2020, an internal audit took place at the facility in Slovakia. The facility fulfilled 5 of 9 parts of SA8000, but can with minor improvements fulfill all parts. An action program is in place and has commenced or will be carried out in 2021.

Internal audits conducted of business ethics

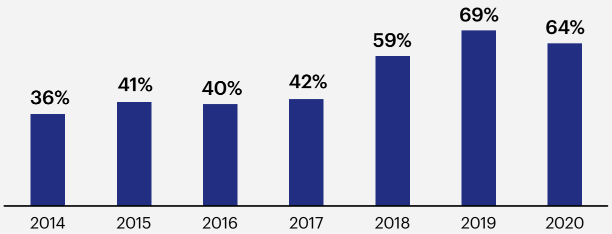
Travel restrictions due to COVID-19 have limited the number of audits conducted. The method used for the audits was adapted to allow these to take place remotely. In 2020, an audit was conducted of business ethics in the Health and Medical Solutions operation in Poland. Essity Health and Medical Solutions in Poland must improve its control of marketing services and increase compliance with Essity's internal guidelines. An action program is in place and has commenced or will be carried out in 2021.

Read more about how Essity works with business ethics on page 50.

H3. INNOVATION

Essity wants to improve well-being for consumers and customers while reducing its impact on the environment with focus on More from less and Circularity. Essity's target is that at least 33% of the company's innovations are to yield social and/or environmental improvements. In 2020, 64% (69; 59) of Essity's innovations yielded social and/or environmental improvements. This refers to the percentage of sales of innovations measured over 36 months. Variations between the years are a natural result of the product categories' various launches. Examples of innovations in 2020 include packaging made from recycled or renewable plastic, face masks and washable absorbent underwear.

Sustainable innovations



A product range's life cycle assessment (LCA) encompasses most of the products sold in a region. This allows Essity to measure environmental performance for innovations and gradual improvements in the company's daily operations for entire product ranges over several years.

Lower climate impact through the use of innovation

Products	Year	Carbon footprint reduction %
Incontinence Products	2008–2019	
TENA Flex		–18
TENA Pads and Liner		–33
TENA Comfort		–19
TENA Men		–20
TENA Pants and Underwear		–33
TENA Slip		–20
TENA Bed		–11
Feminine Care	2008–2019	
Feminine Ultra towels		–17
Baby Care	2008–2017	
Libero and Lotus open diaper		–25
Libero and Lotus pant diaper		–16
Professional Hygiene		
Tork napkins	2011–2019	–9
Tork paper hand towels	2011–2017	–18
Consumer Tissue	2011–2018	
Toilet paper		–10
Household towels		–19
Handkerchiefs and facial tissues	2011–2020	–8

The life cycle assessments performed by Essity have been subject to third-party reviews. A product range's LCAs are updated every second or third year.

Read more about how Essity works with innovation on pages 45–47.

H4. CUSTOMERS AND CONSUMERS

Customer surveys

Essity conducts systematic customer and consumer follow-up, which includes external reports, independent surveys and global systems for feedback. Essity places high value on opportunities for direct customer contact. Customer feedback enables Essity to offer better products and services.

Every business unit has processes to investigate customer satisfaction. Essity also offers expertise and support for the development of operations in, for example, nursing homes and professional environments, where the company can help make a difference and create value for its customers and users.

The retail trade accounts for a significant part, 61%, of Essity's net sales. The company uses external comparison reports in which the largest retail chains assess their suppliers based on customer service, logistics, sales support, marketing and product development. Consumers who purchase retail products are followed up through general brand and product recognition surveys.

Complaints have remained at a low and stable level in recent years. For Personal Care products, the complaint frequency is lower than 1 in a million supplied products. In the Tissue operations, the corresponding figure is 2.1 per thousand tons.

Product safety

Essity ensures that all products are safe for their intended purpose throughout their entire life cycle. Essity sold no products containing substances on the California DTSC Candidate Chemicals List above 0.1%. The only exception was the use of isopropyl alcohol where this is important for the products' functionality, for example as biocide ingredient in hand sanitizer, an important hygiene product during the COVID-19 pandemic. Essity's sales of products containing chemicals on the REACH SVHC candidate list were below 0.1% of total sales.

Read more about how Essity works with Customers and consumers on page 45.

H5. ROLE IN SOCIETY AND COMMUNITY RELATIONS

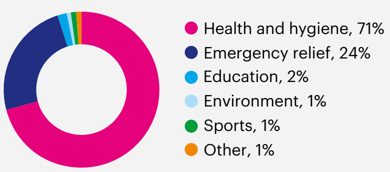
Essity strives to be a dedicated partner in the local communities in which it operates. In 2020, Essity reached out to people in several countries who were particularly vulnerable during the COVID-19 pandemic through a collaboration with the Red Cross. Essity also increased the company's commitment in the Global Handwashing Partnership, under the leadership of the WHO and UNICEF. As part of a collaboration with UNICEF in Mexico, Essity launched a virtual initiative to educate thousands of girls, boys, teachers and parents about hand hygiene and hygiene in relation to menstruation.

Essity invested approximately SEK 49m (38; 18) and about 764 work hours (including staff management) in over 300 projects in 2020. Most of the projects were related to hygiene and health.

Essity's steering documents for community relations state that Essity shall be politically and religiously neutral. The company must not make payments or product donations to political parties or candidates, or their institutions, agencies or representatives. Essity did not support any organizations or projects with political or religious aims in 2020.

Read more about Essity's role in society and community relations on pages 45 and 141.

Community relations by focus area 2020



H6. PACKAGING

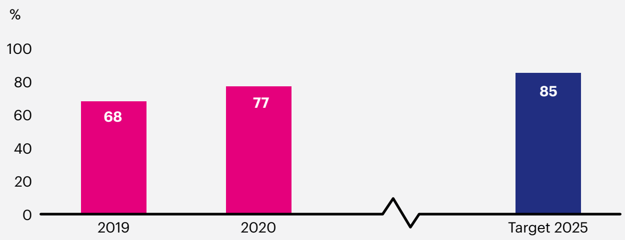
The packaging target for 2025 is that Essity is striving for 100% recyclability and 85% renewable or recycled material in the company's packaging. This target applies to both paper and plastic packaging for Essity's brands. Most of Essity's packaging comprises corrugated board and board for paper packaging and bags and flexible plastic film from polyethylene (PE) or polypropylene (PP) for plastic packaging.

In 2020, Essity's packaging volume for its brands amounted to 171,000 tons. 83% of this volume was recyclable in 2020. For plastic packaging, 77% was recyclable. The proportion of renewable or recycled materials was 77%. 3% of plastic packaging was manufactured from renewable or recycled material, of which the share of recycled plastic was 2%.

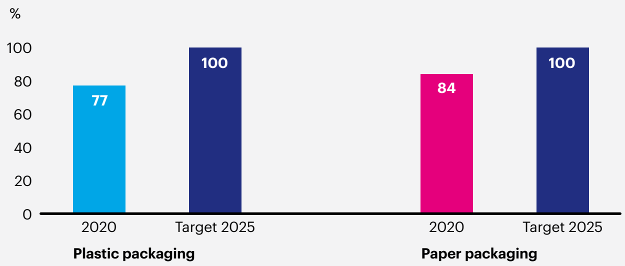
In 2020, Essity estimated the technical recyclability of a large portion of the company's packaging. Essity has thereby improved packaging design to facilitate recycling using existing infrastructures. Essity will continue to assess the technical recyclability of the remaining packaging in 2021 and 2022. Fossil-based plastic in the company's plastic packaging can be replaced with renewable plastic, recycled plastic or paper. When Essity designs new packaging, it assesses function, safety and environmental performance.

Read more about how Essity works with packaging on pages 46–47.

Share of packaging manufactured from renewable or recycled material



Share of technical recyclability



H7. SUPPLY CHAIN AND HUMAN RIGHTS

To ensure responsible business methods and respect for human rights in Essity's supply chain, Essity's target is that all sourcing is to be from suppliers that share the company's values. The target for 2020 was that 100% of all strategically important sourcing categories and sourcing from high-risk areas, which corresponds to 90% of Essity's total purchase cost, is to be from suppliers that comply with Essity's Global Supplier Standard. In 2020, 92% (85; 71) of the procurement spend was sourced from suppliers who fulfill these criteria.

The COVID-19 situation had an adverse impact on work to ensure that the company's suppliers fulfill the requirements of Essity's Global Supplier Standard, and required Essity to instead concentrate on securing deliveries and minimizing delivery risks. The continuous work linked to Sedex and ethical audits, as described below, was also impacted by COVID-19 and could not be carried out to the same extent as in previous years.

H7. SUPPLY CHAIN AND HUMAN RIGHTS, CONT.

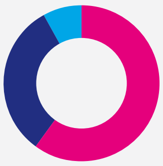
Risk analysis

Essity has an established process to perform continuous risk assessments of the company's suppliers and sourcing categories. Approximately 60% of Essity's strategic suppliers for raw materials and finished products are located in Europe, 32% in North and South America and 8% in Asia and Africa. Many of the strategic suppliers' production facilities located in Asia and Latin America are part of large multinational corporations based in Europe and the US. This is a conscious choice by Essity to reduce the social and ethical risks within the supply chain.

23% (19; 21) of strategic suppliers' manufacturing units are located in high-risk countries according to the Sedex definition. These suppliers are in scope for ethical audits with a focus on health and safety, human rights, employment conditions and corruption. At the end of 2020, Essity had a total of 1,008 (929; 694) suppliers that share data via Sedex.

Certain materials, such as cotton and wood fiber, are considered to primarily have risks lower down in the value chain. Essity takes further measures here, such as audits of subcontractors, or chooses certified raw materials that guarantee more sustainable extraction and production.

Geographical distribution of strategic suppliers 2020



Note: The geographical location of the suppliers' production facilities is a conscious choice by Essity to reduce the social and ethical risks within the supply chain.

Ethical audits conducted

The preferred audit format is SMETA, which is the most popular method in the world for social and ethical audits.

Travel restrictions related to COVID-19 have limited the number of audits conducted. During 2020, Essity evaluated the outcome from 37 (52; 59) ethical supplier audits, of which 31 (45; 30) were carried out in Sri Lanka, Turkey, Colombia, China, Malaysia, Brazil, South Africa, Thailand, Mexico, Russia and Peru. Of these audits, 12 were carried out by Essity using an independent audit firm. The other 25 (19; 29) ethical audits, which meet Essity's requirements, were carried out by other customers to suppliers and were approved by Essity.

Essity is informed within 24 hours in cases of critical observations. No agreements with strategic suppliers were terminated on the grounds of sustainability-related non-compliance in 2020.

Ethical audits conducted

	2020	2019	2018
Audits initiated by Essity[1]	12	33	30
Audits initiated by customers[2]	25	19	29
Total number of audits	**37**	**52**	**59**

1) Audits initiated by Essity were conducted by Essity's independent audit firm in accordance with SMETA's 4-pillar format.
2) Audits initiated by customers were carried out by other customers to suppliers and were approved by Essity.

Read more about how Essity works with the supply chain and human rights on page 50.

H8. FIBER SOURCING

Renewable raw materials, wood-based fresh fiber and recycled fiber, account for the largest share of the total volume of material in Essity's products. In 2020, Essity purchased 3.5 million tons of wood-based fresh fiber and 2.0 million tons of recycled fiber. Wood-based fresh fiber mainly comprises pulp, 98%, and the remainder comprises packaging, externally sourced mother reels and products manufactured by third parties. Of the 2.0 million tons of recycled fiber sourced, 92% is used in tissue manufacturing. The remainder consists of recycled fiber, which is found in sourced packaging material and sourced mother reels.

Fiber use, pulp and recovered paper

	2020	2019	2018	2017
Fiber used, million tons	**5.1**	**5.3**	**5.1**	**5.3**
of which, pulp consumption	3.2	3.1	3.0	3.1
share of total fiber use, %	62	60	60	59
of which, recovered paper consumption	1.9	2.1	2.1	2.2
share of total fiber use, %	38	40	40	41

Fiber sourcing

In 2019, Essity introduced a new target that all raw materials derived from wood-based fresh fiber in the company's products and packaging are to be certified in accordance with the Forest Stewardship Council® (FSC®) or the Programme for the Endorsement of Forest Certification (PEFC™). Target fulfillment in 2020 was 95% (79; 76). All wood-based fresh fiber must fulfill the FSC®'s Controlled Wood standard, as a minimum, to be eligible for purchasing.

Fiber sourcing wood-based fresh fiber by certification[1], %

	2020	2019	2018	2017
FSC®	59	57	48	39
PEFC™	36	22	29	26
FSC® Controlled Wood standard[2]	5	21	23	35
Total	**100**	**100**	**100**	**100**

1) The distribution applies to sourcing by wholly owned companies.
2) Includes sourcing of fresh fiber to three of Essity's facilities in 2020 as FSC® Controlled Wood and evaluated against the standard for Controlled Wood (in accordance with Essity's policy). Due to COVID-19, the facilities have not yet implemented FSC® Chain of Custody at the end of 2020. A small share of mother reels and packaging purchased in 2020 from suppliers was not FSC® Controlled Wood.

In 2020, new data collection systems were introduced for packaging and mother reels to obtain information from suppliers about their capacity to deliver certified packaging and mother reels and, if possible, certify existing deliveries. In 2021, action plans will be agreed with suppliers to certify the remaining small volumes of fresh fiber-based mother reels and packaging, with Essity's support where necessary. Essity prefers to cooperate with suppliers and to introduce FSC® or PEFC™ Chain of Custody to deliver certified and controlled material instead of changing supplier. This approach helps to promote certification throughout the supply chain, for existing and future suppliers.

Recycled and alternative fibers

The proportion of recycled fiber in Essity's products varies between regions due to differences in quality, user preferences and fiber supply and demand. Access to recycled paper was substantially affected by COVID-19 restrictions in Europe and North and South America in 2020. Nonetheless, Essity continued to use recycled fiber, which meant operations in North and South America used 84% recycled fiber, while the proportion of recycled fiber in Europe was 36%.

Essity has continued to study new methods for collecting and recycling, such as the collaboration regarding the circular service Tork PaperCircle®. This service collects used paper hand towels for reuse as new tissue products.

In 2020, Essity continued to develop and test new products made using alternative fibers from wheat straw, cotton, bamboo and sugar cane. One example is Essity's tissue plant in Mannheim, Germany that will start manufacturing tissue from wheat straw in 2021.

Audits conducted of pulp suppliers

The eight largest pulp suppliers to Essity's wholly owned companies represent 81% the volume sourced. Due to COVID-19 restrictions, no on-site audits were carried out in 2020. New questions concerning traceability have been added to the questionnaire, which will continue to be used. This will be sent to all suppliers in 2021. In addition, a new COVID-19 assessment was added to identify delivery and health risks at all suppliers. Essity is examining opportunities to conduct audits online. The company has also carried out a number of third-party audits based on information collected without being present on-site at potential new suppliers.

Read more about how Essity works with fiber and other materials on page 46.

H9. AIR EMISSIONS: SCOPE 1 AND 2

Energy efficiency and emissions reductions have been a major focus for Essity for many years. Essity's production facilities for tissue products had already in 2005 a program to reduce CO_2 emissions per ton of tissue products produced. The reduction in CO_2 emissions per ton produced between 2005 and 2020 was 19%.

Since 2010, Essity's production facilities have a target to reduce energy consumption by 14% per ton of tissue products produced by 2020. This was within the framework of the ESAVE program. The accumulated energy savings in the 2010–2020 period amounted to 8%.

Essity's targets to reduce absolute 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 emissions by 25% by 2030 compared with 2016. The target applies to wholly owned companies. The outcome for 2020 was –11% (–5, –5) for Scope 1 and 2. The reduction in 2020 was the result of lower production volumes in Professional Hygiene and Personal Care due to COVID-19 and continued improvements in energy efficiency.

Greenhouse gas emissions

Essity's greenhouse gas emissions are divided into three different Scopes depending on origin. Scope 1 and 2 are directly linked to Essity's production facilities and are dependent on production volumes. This also includes direct emissions from fuel consumption and indirect emissions from the use of purchased energy. Scope 3 reports indirect emissions in Essity's value chain (see separate Note, H10). Scope 1 consists of emissions from burning of fuels at Essity's production facilities. The reported data is based on energy use with associated emission factors. Scope 2 consists of emissions from purchased energy and is primarily linked to the use of electricity and also purchased thermal energy in the form of steam. The calculation of emission data uses country and region-specific emission factors.

Energy utilization

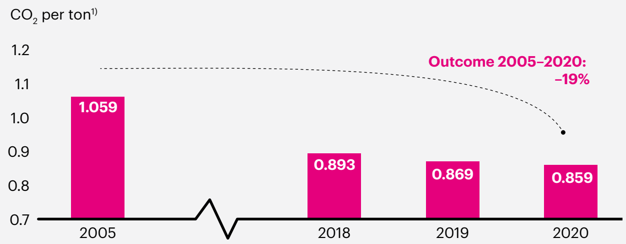
Energy efficiency, new technology and the greater use of renewable energy are required to achieve Essity's stated targets. Energy use calculations include purchased energy, use of fuel and biomass and electricity generated on site. The energy generated is used in production. The surplus heat created is mainly used by Essity. A minor share is sold externally. Most of Essity's energy, both fuel and electricity, is used in tissue production. The focus for tissue production is therefore on improving energy efficiency. Energy savings as specified above amounted to 8% between 2010 and 2020. These savings were achieved through a number of major investment projects in technical upgrades of the company's paper machines. Best practice is also continuously identified and implemented in terms of energy efficiency and energy savings at the company's production facilities. Essity's energy efficiency program will remain a cornerstone of Essity's work to reduce energy use and emissions and is strongly linked to its commitment to Science Based Targets. The production of Personal Care products primarily uses electricity. In 2020, Essity increased its share of renewable electricity at facilities in Europe.

The EU Emissions Trading Scheme (EU ETS)

Essity had 23 production facilities included under the EU ETS in 2020. During the third phase of EU ETS (2013–2020), Essity's operations have had a deficit of emission allowances. The deficit involves an average of approximately 0.2 million tons of carbon dioxide equivalents per year during the period. The average market price for emission rights in 2020 was about EUR 24.8 (24.8; 15.9) per ton and Essity purchased 225,000 (240,000; 240,000) emission rights to cover the year's deficit.

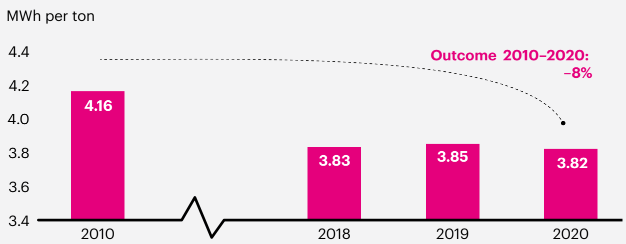
Read more about how Essity works with air emissions on page 47.

CO_2 intensity

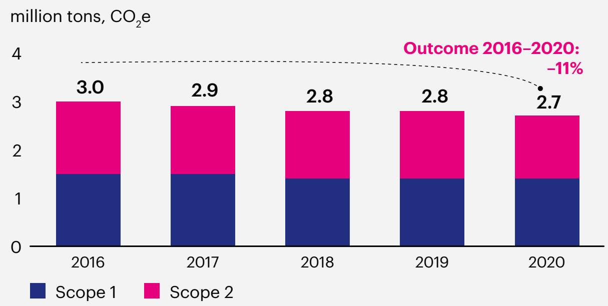


1) Relates to tissue sites.

Energy efficiency



Air emissions, Scope 1 and 2



Air emissions: Science Based Targets, ktons

	2020	2019	2018	2017	2016
Scope 1, CO_2e	1,367	1,452	1,453	1,472	1,474
Prior year adjustment[1]		0	10	12	–1
Scope 2, CO_2e[2]	1,285	1,368	1,383	1,398	1,518
Prior year adjustment[1]		31	45	–39	62

1) Acquisitions/divestments, updates of emission factors (location based) according to the GHG protocol.
2) Derived from location-based emission factors.

Other air emissions[1]

	Essity – wholly owned companies					Group companies with significant non-controlling interests					Essity Group				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
NOx as NO_2, tons	1,787	1,545	1,753	1,809	1,833	27	27	22	23	25	1,814	1,572	1,775	1,832	1,858
SOx, tons	489	563	663	775	752	0	23	13	14	16	489	586	676	789	768
Dust, tons	100	123	117	122	136	4	5	5	5	5	104	128	122	127	141
CO_2 biogenic, ktons	493	512	497	477	527	–	–	–	–	–	493	512	497	477	527

1) Other air emissions from use of fuel in production facilities include nitrogen oxides and sulfur oxides (NOx and SOx).

H9. AIR EMISSIONS, SCOPE 1 AND 2, CONT.

Energy and air emissions (Scope 1 and 2)

	Essity – wholly owned companies					Group companies with significant non-controlling interests					Essity Group				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Production, ktons	3,377	3,508	3,549	3,641	3,626	293	288	282	299	300	3,670	3,796	3,831	3,940	3,926
Energy utilization															
Purchased electricity, GWh	3,928	4,098	4,184	4,222	4,259	303	291	271	269	286	4,231	4,389	4,455	4,491	4,545
Heating/steam															
Purchased heating/steam, GWh	181	257	264	208	207	–	–	–	–	–	181	257	264	208	207
Fuels															
Biofuel, GWh	1,129	1,181	1,197	1,227	1,368	–	–	–	–	–	1,129	1,181	1,197	1,227	1,368
Fossil fuel, GWh	6,615	6,978	6,982	7,020	7,028	304	357	346	337	317	6,919	7,335	7,328	7,357	7,345
Total fuels, GWh	7,744	8,159	8,179	8,247	8,396	304	357	346	337	317	8,048	8,516	8,525	8,584	8,713
Total energy, GWh	11,853	12,514	12,627	12,677	12,862	607	648	617	606	603	12,460	13,162	13,244	13,283	13,465
Energy intensity (specific energy used), GWh per ktons	3.5	3.6	3.6	3.5	3.5	2.1	2.3	2.2	2.0	2.0	3.4	3.5	3.5	3.4	3.4
Greenhouse gas emissions															
Scope 1, CO_2e, ktons	1,367	1,452	1,453	1,472	1,474	68	79	75	72	68	1,435	1,531	1,528	1,544	1,542
Scope 2, CO_2e (location based), ktons	1,285	1,368	1,383	1,398	1,518	24	23	22	22	39	1,309	1,391	1,405	1,420	1,557
Scope 2, CO_2e (market based), ktons	1,400	1,575	1,767	1,808	1,805	73	71	66	65	85	1,473	1,646	1,833	1,873	1,890

H10. AIR EMISSIONS: SCOPE 3

Essity's target is to reduce greenhouse gas emissions by 18% within Science Based Targets' Scope 3, which applies to the most important suppliers of raw materials, transportation and waste, until 2030 and starting in 2016. The target applies to wholly owned companies.

An inventory of all greenhouse gas emissions from 2016 found that Scope 3, meaning indirect emissions generated upstream and downstream in the value chain, accounted for 54% of all emissions. The most important categories were emissions from production of Essity's suppliers, transportation (upstream and downstream), waste from the company's own production and product waste after use. The categories represent the majority of total Scope 3 emissions in the value chain. Remaining emissions were assessed but are not included in Essity's Science Based Targets as these are not deemed material. Essity is also striving to reduce other emissions such as emissions from business travel and commuting to work.

Essity calculates these emissions using data from several providers in the company's value chain. To ensure that Essity has complete and reliable data, Scope 3 emissions are reported with a one-year delay.

Read more about how Essity works with air emissions on page 47.

Sourced raw material

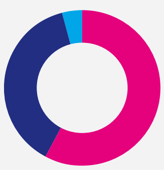
Essity purchases raw materials from suppliers in order to manufacture hygiene and health products. Most of the raw material is from wood-based fresh or recycled pulp for tissue and fresh wood-based pulp, super absorbents and non-woven for Personal Care products. Essity collaborates with the company's largest suppliers to jointly reduce environmental impact.

Read more about how Essity works with fiber in Note H8.

Transport

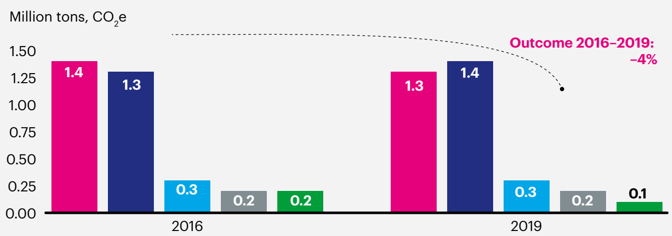
Raw materials are transported to Essity's production plants and finished products are delivered to Essity's customers. Transportation is carried out by external suppliers. Sea freight accounts for the greatest portion of Essity's inbound transportation and most of the outbound consists of road and rail. Essity's total transportation amounted to 13 (13; 14) billion ton-kilometers in 2020.

Distribution of transport modes 2020



Scope emissions, Science Based Targets, 2016 inventory

Scope 3 emissions, Science Based Targets, results



Waste in production and after use

Essity's target is that all production waste will be subject to material and energy recovery by 2030. By reducing the amount of production waste sent to landfill and instead recycling the waste or extracting energy from it, greenhouse gas emissions can be reduced, thereby helping Essity to achieve its Science Based Targets (Scope 3).

H10. AIR EMISSIONS, SCOPE 3, CONT.

In 2020, Essity's production waste amounted to a total of 1.49 (1.68; 1.65) million tons. In Essity's production process, particularly when recycled fiber is used as input goods, waste is generated in the form of ash, sludge, organic waste and plastic. The production sites work to reduce waste and to find alternative solutions for their waste. Waste that cannot be recovered, is sent to landfill or composted. In 2020, 65% (63; 60) of Essity's waste was recovered.

A small proportion, 0.2% or 3,159 tons, is hazardous waste, which is primarily waste oil, but also includes organic solvents, batteries and strip lights.

Waste from products after use is managed in various ways. Toilet paper is flushed into the sewer system. Other products are sent to municipality waste facilities where the used products are composted, incinerated or sent to landfill. In order to reduce waste from products after use and thereby reduce its climate footprint, Essity aims to increase the use of renewable materials and study new reusable concepts and recycling. One example of new methods introduced by Essity is Tork PaperCircle®, where used paper hand towels are collected and recycled.

Production waste, ktons

	Essity – wholly owned companies					Group companies with significant non-controlling interests					Essity Group				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Eliminations	489	567	659	627	671	5	6	8	7	10	494	573	667	634	681
of which landfill	485	543	634	601	640	2	2	7	6	9	487	545	641	607	649
of which other eliminations	4	24	25	26	31	3	4	1	1	1	7	28	26	27	32
Recycling	895	978	875	938	1,013	103	125	112	102	100	998	1,103	987	1,040	1,113
Total waste	1,384	1,545	1,534	1,565	1,684	108	131	120	109	110	1,492	1,676	1,654	1,674	1,794

H11. WATER

Essity's Group target for water is that the company's tissue operations will improve water quality by reducing the level of suspended solids and organic content (BOD), and to reduce the quantity of discharged water by 10% by 2020, with 2014 as reference year.

In 2020, levels of suspended solids decreased 26.9% (25.8; 18.5), the amount of organic content (BOD) by 21.0% (28.5; 25.0) and the quantity of discharged water by 3.5% (1.9; 2.9) compared with 2014. Essity's main focus has been to improve water quality during these years. In 2021, Essity will draw up new targets for the company's water management.

Extraction, use and discharge of water

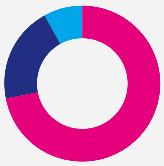
Essity's reporting of water extraction states totals for surface water, groundwater and municipal water systems. Surface water, which represents the largest share of water extraction, as a general rule must be purified from dissolved and solid content before use in the production process. Most of Essity's water is used to transport fibers during production processes. The remainder is mainly used as cooling water. In 2020, 73% (74; 75) of the water used was drawn from surface sources. Essity's water discharge is divided into cooling water and process water. Cooling water has simply been heated and is not contaminated in any way. Process water is treated using mechanical and biological treatment systems before it is discharged.

In 2020, six of Essity's wholly owned production facilities were located in so-called water-stressed areas. The sites accounted for 7% of Essity's total water consumption, distributed between 37% from surface sources, 37% from groundwater and the remainder from recycled water from municipal water systems. Total water extraction from these facilities in 2020 was 6.9 million m^3, water discharges 4.4 million m^3 and water consumption 2.5 million m^3.

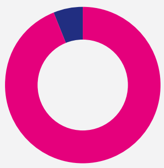
Any environmental incidents are registered in a central incident-reporting system. In 2020, a small number of incidents relating to temporary exceedances of permitted limit values for waste water were registered. No incident was of such a magnitude that it posed a threat to an emissions permit.

Read more about how Essity works with water on page 47.

Breakdown of water extraction 2020



Breakdown of discharged water 2020



Water

	Essity – wholly owned companies					Group companies with significant non-controlling interests					Essity Group				
Water, mm³	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Water extraction	90	102	100	101	102	3	3	3	3	3	93	105	103	104	105
Discharges of water	81	94	93	93	93	2	3	2	2	2	83	97	95	95	95
Water consumption[1]	9	7	7	8	9	1	1	1	1	1	10	8	8	9	10
Water emissions, tons															
COD	5,897	6,021	6,316	6,578	6,773	630	739	733	900	967	6,527	6,760	7,049	7,478	7,740
BOD	632	614	666	646	877	227	199	185	229	262	859	813	851	875	1,139
Suspended solids	660	719	815	818	1,018	196	193	186	242	250	856	912	1,001	1,060	1,268
AOX	4	3	3	5	4	–	–	–	–	–	4	3	3	5	4
P	33	38	43	34	38	0	1	1	3	4	33	39	44	37	42
N	150	186	198	235	375	1	1	1	3	5	151	187	199	238	380

[1] Water consumption is water extraction less discharged water.

H12. EMPLOYEES

Essity's employees are the company's main asset and the company strives continuously to develop corporate culture, competence and leadership.

	2020	2019	2018	2017
Personnel data				
Average number of employees	46,084	45,980	47,222	46,385
of which in wholly owned companies	27,881	27,956	28,696	28,035
of which in jointly-owned companies	18,203	18,024	18,526	18,350
Permanent staff/ temporary employees, %[1]	81/19	82/18	81/19	80/20
Full-time/part-time, %	97/3	96/4	97/3	97/3
Total number of part-time staff	1,194	1,614	1,052	1,362
of whom women	875	1,210	980	930
Total number on parental leave	449	451		
of whom women	369	297		
Staff mobility				
Number of employees who joined the Group	6,891	5,516	6,945	13,585
of whom, through acquisitions	190	23	36	5,518
Number of employees who left the Group	7,402	6,485	7,815	7,321
due to divestments	945[2]	109	–	21
due to restructuring	260	345	544	584
due to retirement	443	524	383	418
of which temporary employees	1,939	1,420	1,799	1,857
Personnel turnover, excl. restructuring, retirements, divestments, temporary employees, %	8	9	11	10
of whom in wholly owned companies, %	5	5	5	
of whom in jointly-owned companies, %	13	13	18	

1) Fixed-term employees in China with three or six-year contracts are classified as temporary employees.
2) Since the divestment occurred at the end of the year, these are included in the "average number of employees" in 2020.

Diversity and equal opportunities

Essity continuously and actively strives to increase diversity and inclusion. The company's diversity and inclusion strategy aims to continuously increase employees' sense of belonging and inclusion of different perspectives, and also seeks to attract and recruit employees motivated by the company's objective of breaking barriers to well-being in society. This work is followed up in Essity's diversity study, which is held every year and relates to nationalities, age structure and distribution of gender in general and in managerial roles.

	2020	2019	2018	2017
Gender[1]				
Women/men, %	35/65	34/66	34/66	34/66
Women (total number Board members)	6 (12)	6 (12)	6 (12)	5 (13)
Women (total number Executive Management Team)	3 (12)	3 (12)	3 (12)	5 (14)
Women (total number senior management)	30 (98)	30 (98)	25 (101)	30 (117)
Women (total number middle management)	177 (607)	163 (580)	177 (641)	183 (696)
Age, %				
Employees under 20 years of age	1	1	1	1
21–30 years	18	22	21	22
31–40 years	34	32	33	33
41–50 years	26	25	25	25
51–60 years	18	17	17	16
Employees over 60 years of age	3	3	3	3
Nationalities[1]				
Total number of nationalities	117	112	105	102
Number of nationalities in Executive Management Team (number of members)	6 (12)	6 (12)	6 (12)	5 (14)
Number of nationalities in senior management (number of senior managers)	18 (98)	20 (98)	17 (101)	18 (117)
Number of nationalities in middle management (number of middle managers)	44 (607)	39 (580)	39 (641)	36 (696)

1) Refers to Essity's wholly owned companies.

Salary

No unjustified pay differences should exist due to gender, age or background. This is regularly monitored and any unjustified differences are corrected on an annual basis.

Average combined salary[1], %	2020	2019	2018	2017
Women's median wage compared with men's (men's wage 100%)	91	92	94	95
Women's median wage compared with men's in senior management (men's wage 100%)	80	82	79	78
Women's median wage compared with men's in middle management (men's wage 100%)	95	97	92	92

1) Applies to salaries from Sweden, Germany, France, the US and Mexico (countries where Essity has most employees). Salaries for the President, Executive Vice President and CFO are excluded.

A higher number of men in senior leadership positions has contributed to the total pay difference between women and men. Essity is continuously striving to improve the gender balance in leadership positions when recruiting and through succession planning.

Performance and individual development

In 2020, Essity launched a global HR system for individual goals and development that is available to all employees. The system is not yet fully implemented in the company's production facilities, but the aim is to include all employees.

Employee development plans are important for commitment, performance and continuous learning, and play an important role in enabling Essity to achieve its goals and continuously evolve. The development activities are decided through discussions between line managers and employees and are documented in a system platform. Essity identifies the skills required in leadership, the functional area, the "Beliefs & Behaviors" set of values or other development areas. The company applies a 70-20-10 model for learning and development that combines formal training with learning in day-to-day work and through co-workers.

In 2020, many of Essity's development activities became digital, which gave more employees access to them. Essity has a new framework for leadership development activities, mandatory courses, the digital workplace and a framework for functional training.

Number of internal training hours (thousand)	2020	2019	2018	2017
Total number of internal training sessions	166.8	114.0	81.2	140.8
of which digital training sessions	93.6	39.5	23.8	24.6
of which virtual sessions	40.9	1.9	0.9	0.0
of which physical training sessions	32.3	72.7	56.5	116.2
The number of training hours per employee	6	4	3	5

Investments in skills-enhancement activities	2020	2019	2018	2017
Total, SEKm	115	117	141	152
per employee, SEK	2,500	2,500	3,000	3,300
Value added (SEK) per employee	826	800	661	666
Return (SEK) on human capital	1.73	1.61	1.50	1.59

Employee goals and commitment

Essity's winning culture is based on the company's "Beliefs & Behaviors" and followed up through an employee survey, whereby the company continuously monitors employee engagement. Due to the situation with the COVID-19 pandemic, the 2020 Pulse Survey only included employees with a work computer. It had a particular focus on engagement with regard to working from home.

Culture and development, %	2020[1]	2019	2018	Long-term goals
Individual development plans	65			100
Individual goals	93	83	84	100
Employee engagement	90	79	79	>85

1) Refers to employees with work computer.

Internally appointed vacancies, %	2020	2019	2018	2017
Vacancies appointed through internal candidates[1]	23	23	28	26

1) Refers to Essity's wholly owned companies.

Employee relations

Union involvement varies among Essity's countries of operation. On average 68% (68; 63) of Essity's employees are covered by collective agreements. There are health and safety committees on which representatives of 84% (85; 82) of employees served. The notice period in connection with organizational changes in the Group varies, but averaged about five weeks.

Read more about how Essity works with employees on pages 48–49.

H13. HEALTH AND SAFETY

In 2020, Essity conducted a global survey to measure and evaluate how Essity facilitates and supports the physical, mental and social health of employees. The survey also shows the distribution of reactive, proactive and preventive health programs and health initiatives. The aim is to encourage continuous improvements and share best practices worldwide. This survey was conducted at 80 of Essity's larger facilities, both production facilities and offices, in 2020.

Due to COVID-19, work with health and safety was intensified in 2020. For instance, Essity has made training material and activities available to ensure healthy remote working and taken steps to ensure the best possible health and safety practices at the company's production facilities and offices.

Sickness absence

	2020	2019	2018	2017
Sickness absence, %[1)]	5.34	5.20	4.92	4.86
Scope of reporting, % of wholly owned companies	56	54	55	57

1) Sickness absence is calculated using the number of hours absent (excluding planned and long-term illness), divided by the number of work hours.

Essity's Group target is to decrease the accident frequency rate by 50% in the 2014–2020 period. In 2020, the accident frequency rate declined by 17% year-on-year to 2.7 (3.3; 3.8) accidents per million hours worked and 56% compared with the base year of 2014. The reduction is the result of purposeful and systematic work with safety issues at all of Essity's production facilities.

In 2020, Essity updated its health and safety strategy and global Health and Security Policy as part of the company's journey toward a risk-free safety culture. Key initiatives within this strategy include controls and reviews by Essity's Health and Safety Committee and studies of the safety climate at the company's production facilities. To further increase the focus on "near misses", from 2021 Essity will expand the measurement of confirmed accidents and the accident frequency rate to form a Total Recordable Injury Frequency Rate. The term "potential consequences" will thus be introduced to identify potential incidents that, in a worst-case scenario, could result in injury or fatality.

Essity's safety functions include procedures that apply to all production facilities. The safety functions are examined and quality assured every year. One of the most important processes is risk assessment, which includes risk identification, evaluation of exposure, potential consequences and risk reduction based on a hierarchy of control. Following this risk assessment process, Essity has identified critical tasks and using these the company's global experts have developed safety standards that include clear preventive countermeasures for several specific operations, such as "Yankee cylinder safety", "Working at height", "Traffic safety" and "Machinery safety".

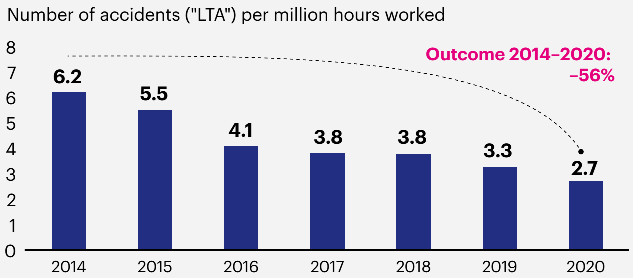
As stated in Essity's global Health and Security Policy and incident response procedure, the company always encourages employees to set a good example when it comes to work safety and to share and use the tools available to report any dangerous conditions and unsafe behavior. In parallel, the management groups of the facilities review, manage, conclude and provide feedback to this reporting in a systematic manner.

Accidents[1)]

	2020	2019	2018	2017
Lost Time Accidents, LTA	137	177	214	210
Contractor Lost Time Accidents, CLTA	30	34	50	34
Days Lost due to Accidents, DLA	3,704	4,615	5,230	4,877
Accident Severity Rate (ASR): The DLA / LTA	27.0	26.1	24.4	23.2
Accident Frequency Rate, FR (LTA/1,000,000 WH)	2.7	3.3	3.8	3.8
Incident Rate, IR (LTA/200,000 WH)	0.5	0.7	0.8	0.8
Fatalities (employees)	–	–	–	–
Number of zero-accident sites	29	29	27	26
Number of sites included in reporting	81	86	85	85
Work hours, (1,000,000)	50.4	54.1	56.7	54.8

1) 100% cover for production facilities, excluding sales and administration offices.

Accident frequency rate (FR)



Read more about how Essity works with health and safety on pages 48–49. Read more about how the company works with health in relation to COVID-19 on page 19.

H14. CERTIFICATIONS

Reliable management systems, which are certified by a third party, play an important role in Essity's sustainability work. Essity uses ISO 14001 and EMAS (the EU's Eco Management and Audit Scheme) as certified environmental management systems. A large number of production units are certified in accordance with ISO and/or EMAS. ISO 9001 is the most important quality management system used by Essity. Essity implements the international standard OHSAS 18001 (Occupational Health and Safety Assessment Series) to ensure the use of uniform processes within the entire company and that Essity's units continuously improve workplace-related health and safety.

Certified volumes, Essity's main sites[1)], %

	2020	2019	2018	2017
ISO 9001	77	80	77	76
ISO 14001	81	75	80	85
OHSAS 18001	79	80	71	71

1) A main site is a production facility that is wholly owned by Essity and that has at least 100 employees.

PC16. PROPOSED DISPOSITION OF EARNINGS

Annual accounts 2020

Disposition of earnings Essity Aktiebolag (publ)	
Non-restricted equity in the Parent company:	
retained earnings	83,552,076,909
net profit for the year	2,636,400,430
Total	**86,188,477,399**
The Board of Directors and the President propose:	
to be distributed to shareholders, a dividend of SEK 6.75 per share	4,740,811,801
to be carried forward	81,447,665,538[1)]
Total	**86,188,477,339**

[1)] The company's equity would have been SEK 55,345,381 higher if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14a of the Swedish Annual Accounts Act.

The Board of Directors and President declare that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the EU and that disclosures herein give a true and fair view of the Group's position and results of operations. The Parent company's annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent company's position and results of operations. The statutory Board of Directors' Report provides a fair review of the Parent company's and Group's operations, position and results of operations and describes material risks and uncertainties facing the Parent company and the companies included in the Group.

Stockholm, February 18, 2021

Ewa Björling
Board member

Pär Boman
Chairman of the Board

Maija-Liisa Friman
Board member

Annemarie Gardshol
Board member

Magnus Groth
President,
CEO and
Board member

Susanna Lind
Board member,
employee representative

Bert Nordberg
Board member

Louise Svanberg
Board member

Örjan Svensson
Board member,
employee representative

Lars Rebien Sørensen
Board member

Barbara Milian Thoralfsson
Board member

Niclas Thulin
Board member,
employee representative

Our audit report was submitted on February 18, 2021
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

Auditor's report

To the general meeting of the shareholders of Essity AB (publ), corporate identity number 556325-5511

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Essity AB (publ) except for pages 51–61 and 119–127 for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 8–10 and 24–132 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent company as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover pages 51–61 and 119–127. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent company and the Group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the Parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its Parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

VALUATION OF GOODWILL AND OTHER INTANGIBLES ASSETS (TRADEMARKS)

Description	How our audit addressed this key audit matter
The value of goodwill and other intangibles (including trademarks) with an indefinite useful life as of 31 December 2020 amounted to 45.2 billion SEK. The company performs annual impairment tests as well as whenever impairment indicators have been identified. The recoverable amount for each cash-generating unit is determined as the value in use, which is calculated based on the discounted present value of future cash flows. Key assumptions in these calculations include future growth rates, gross profit development and the discount rate applied and are presented in Note D1 ("Intangible assets"). An impairment test is a complex process and contains a high degree of judgment regarding future cash flows and other assumptions, not least because it is based on estimates of how the company´s business will be affected by future market developments and by other economic events. In addition, the underlying calculations are in themselves complex. Therefore, we have assessed valuation of goodwill and other intangibles assets with an indefinite useful life to be a key audit matter.	In our audit we have evaluated and reviewed key assumptions, the application of recognized valuation practices, discount rate (referred to as WACC – "Weighted Average Cost of Capital") and other source data that the company has applied. Our evaluation has included comparing to external data sources, such as forecasts of inflation or assessment of future market growth and by evaluating the sensitivity in the company´s valuation model. We have specifically focused on the sensitivity in the calculations and have made an independent evaluation of whether there is a risk that reasonably probable events would give raise to a situation where the value in use would be lower than the carrying amount. In order to assess the company´s historical precision in its estimates and assessments we have also evaluated the company´s historical estimates with actual amounts that were subsequently reported. We have as appropriate included valuation experts in the team performing our review. Finally, we have evaluated if disclosures provided in Note D1 ("Intangible assets") in the company´s notes are appropriate, specifically with regards to the disclosure of which of the stated assumptions that are most sensitive in calculating the value in use and the sensitivity analysis for those key assumptions.

Production facilities[1)]

(Capacity is stated in thousands of tons, unless otherwise indicated, and per year)

Personal Care

Production facility	Country
Buenos Aires	Argentina
Jarinu	Brazil
Drummondville	Canada
Hubei	China
Zhejiang	China
Cali	Colombia
Caloto	Colombia
Rio Negro	Colombia
San Cristobal	Dominican Republic
Lasso	Ecuador
Cairo	Egypt
Radiante	France
Vibraye	France
Emmerich	Germany
Hausbruch	Germany
Goa	India
Amman	Jordan
Shah Alam 1&2	Malaysia
Ecatepec	Mexico
Reynosa	Mexico
Assen	Netherlands
Gennep	Netherlands
Hoogezand	Netherlands
Karachi	Pakistan
Olawa	Poland
Veniov	Russia
Gemerská Hôrka	Slovakia
Pinetown	South Africa
Valls	Spain
Falkenberg	Sweden
Mölnlycke	Sweden
Kao Hsiung	Taiwan
Kartepe	Turkey
Bowling Green	USA

Consumer Tissue and Professional Hygiene

Production facility	Country	Capacity
Ortmann	Austria	132
Stembert	Belgium	75
Santiago	Chile	28
Beijing	China	30
Hubei	China	300
Liaoning	China	55
Shangdong	China	110
Sichuan	China	75
Xinhui, Sanjiang	China	410
Yangjiang	China	60
Zhejiang	China	210
Cajica	Colombia	70
Medellin	Colombia	30
Inpaecsa	Ecuador	13
Lasso	Ecuador	26
Nokia	Finland	67
Gien	France	145
Hondouville	France	55
Kunheim	France	52
Le Theil	France	65
Kostheim	Germany	152
Mannheim	Germany	283
Neuss	Germany	112
Witzenhausen	Germany	32
Altopascio	Italy	25
Collodi	Italy	42
Lucca	Italy	100
Monterrey	Mexico	62
Sahagun	Mexico	95
Uruapan	Mexico	40
Cuijk	Netherlands	52
Suameer[2)]	Netherlands	9
Sovetsk	Russia	91
Svetogorsk	Russia	55
Allo	Spain	120
Valls	Spain	137
Lilla Edet	Sweden	100
Manchester	UK	50
Oakenholt	UK	70
Prudhoe	UK	94
Stubbins	UK	55
Tawd Mill	UK	30
Barton	USA	180
Harrodsburg	USA	55
Menasha	USA	211
Middletown	USA	100
South Glens Falls	USA	64
Converting facilities		
Kingsgrove	Australia	
Jarinu	Brazil	
Hlohovec	Slovakia	
Telde	Spain	
Skelmersdale	UK	
Greenwich	USA	
Neenah	USA	
Total		**4,424**

1) As of December 31, 2020.
2) Non-woven production.