

Financial statements and notes

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Amounts that are reconcilable to the balance sheet, income statement, cash flow statement and operating cash flow statement are marked with the following symbols:

BS	Balance sheet
IS	Income statement
CF	Cash flow statement
OCF	Operating cash flow statement

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Parent Company income statement
Statement of comprehensive income
Parent Company cash flow statement
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Consolidated income statement ^{IS}

Group	Note	2017		2016		2015	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Net sales	B1	109,265	11,343	101,238	10,706	98,519	10,537
Cost of goods sold	B2	-76,899	-7,983	-72,438	-7,661	-71,898	-7,689
Items affecting comparability – cost of goods sold	B2	-509	-53	-532	-56	-267	-29
Gross profit		31,857	3,307	28,268	2,989	26,354	2,819
Sales, general and administration	B2	-19,130	-1,986	-16,965	-1,794	-16,216	-1,734
Items affecting comparability – sales, general and administration	B2	-346	-36	-2,113	-223	-25 ²⁾	-3 ²⁾
Share of profits of associates and joint ventures		169	18	157	17	198	21
Operating profit before amortization of acquisition-related intangible assets (EBITA)		12,550	1,303	9,347	989	10,311	1,103
Amortization of acquisition-related intangible assets	B2	-560	-58	-159	-17	-133	-14
Items affecting comparability – acquisition-related intangible assets	B2	-85	-9	-180	-19	-494	-53
Operating profit		11,905	1,236	9,008	953	9,684²⁾	1,036²⁾
Financial income	E7	158	16	202	21	312 ³⁾	33 ³⁾
Financial expenses	E7	-1,340	-139	-1,037	-109	-1,140	-121
Profit before tax		10,723	1,113	8,173	865	8,856	948
Tax	B4	-1,938	-201	-3,931	-416	-2,278	-244
Profit for the period		8,785	912	4,242	449	6,578	704
Earnings attributable to:							
Owners of the Parent		8,116	843	3,800	402	6,129	656
Non-controlling interests		669	69	442	47	449	48
Earnings per share – owners of the Parent							
Earnings per share before and after dilution effects		11.56	1.2	5.4 ⁵⁾	0.6 ⁵⁾	8.7 ⁵⁾	0.9 ⁵⁾
Dividend per share, SEK		5.75 ⁴⁾					
Profit for the period attributable to owners of the Parent		8,116	843	3,800	402	6,129	656
Average number of shares before dilution, million		702.3		702.3		702.3	
Average number of shares 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 9.63 (9.46; 9.35) was used.

²⁾ Includes the sale of securities, SEK 970m, EUR 103.7m.

³⁾ Excludes the sale of securities, SEK 970m, EUR 103.7m.

⁴⁾ Board proposal.

⁵⁾ Indicative earnings per share on the assumption that the number of issued shares in Essity as of December 31, 2016 and 2015 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).

Consolidated statement of comprehensive income

SEKm	2017	2016	2015			
IS Profit for the period	8,785	4,242	6,578			
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans	1,061	-1,569	1,933			
Income tax attributable to components in other comprehensive income	-218	421	-418			
	843	-1,148	1,515			
Items that have been or can be transferred to profit for the period						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity	-	-1	318			
Transferred to profit or loss upon sale	-	-	-970			
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity	35	275	-450			
Transferred to profit or loss for the period	-56	274	342			
Transferred to cost of hedged investments	10	-19	-			
Translation differences in foreign operations	320	2,742	-1,944			
Result from hedging of net investments in foreign operations	-1,968	-437	-58			
Other comprehensive income from associates	-22	12	-17			
Income tax attributable to components in other comprehensive income	439	-41	33			
	-1,242	2,805	-2,746			
Other comprehensive income for the period, net of tax	-399	1,657	-1,231			
Total comprehensive income for the period	8,386	5,899	5,347			
Total comprehensive income attributable to:						
Owners of the Parent	8,029	5,222	5,113			
Non-controlling interests	357	677	234			
By operating segment	Net sales			Adjusted EBITA¹⁾		
SEKm	2017	2016	2015	2017	2016	2015
Personal Care	40,586	33,651	34,344	5,937	4,283	3,997
Consumer Tissue	42,014	41,560	41,657	4,084	4,450	3,846
Professional Hygiene	26,700	26,001	22,527	4,004	3,836	3,497
Other	-35	26	-9	-620	-577	-737
Total	109,265	101,238	98,519	13,405	11,992	10,603

¹⁾ Excluding items affecting comparability.

Consolidated statement of change in equity

Group	2017	2016	2015
Attributable to owner of the Parent			
Value, January 1	33,204	42,986	39,675
Total comprehensive income for the period	8,029	5,222	5,113
Transactions with shareholders (for further information, see Note G4 Transactions with related parties)	842	-14,679	-1,762
Private placement to non-controlling interests	504	240	-
Private placement to non-controlling interests, dilution	-290	-110	-
Issue expenses, private placement	-	-4	-
Acquisition of non-controlling interests	-	-799	-40
Acquisition of non-controlling interests, dilution	-	348	-
BS Value, December 31	42,289	33,204	42,986
Non-controlling interests			
Value, January 1	6,376	5,289	5,250
Total comprehensive income for the period	357	677	234
Dividend	-285	-190	-216
Private placement to non-controlling interests	465	199	-
Private placement to non-controlling interests, dilution	290	110	-
Issue expenses, private placement	-	-4	-
Acquisition of non-controlling interests	78	643	21
Acquisition of non-controlling interests, dilution	-	-348	-
BS Value, December 31	7,281	6,376	5,289
BS Total equity, value December 31	49,570	39,580	48,275

For further information, see Note E8 Equity on page 132.

Consolidated operating cash flow statement, supplementary disclosure **OCF**

Group	Note	2017		2016		2015	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
IS Net sales		109,265	11,343	101,238	10,706	98,519	10,537
Operating expenses		-90,867	-9,433	-84,498	-8,936	-83,483	-8,929
Operating surplus		18,398	1,910	16,740	1,770	15,036	1,608
Adjustment for non-cash items		67	7	19	2	15	2
Operating cash surplus		18,465	1,917	16,759	1,772	15,051	1,610
Change in							
Inventories		-1,703	-177	1,059	112	-1,407	-150
Operating receivables		1,522	158	-298	-31	-1,029	-110
Operating liabilities		-559	-58	835	88	1,919	205
Change in working capital		-740	-77	1,596	169	-517	-55
Current capital expenditures		-3,911	-406	-4,222	-446	-3,293	-352
Restructuring costs, etc.		-1,091	-113	-1,102	-117	-801	-86
Operating cash flow		12,723	1,321	13,031	1,378	10,440	1,117
Financial items	E7	-1,182	-123	-835	-88	-828	-88
Paid tax	B4	-2,971	-308	-3,782	-400	-2,194	-235
Other		175	18	149	16	132	14
Cash flow from current operations		8,745	908	8,563	906	7,550	808
Strategic capital expenditures and divestments							
Company acquisitions	F6	-26,045	-2,704	-6,540	-692	-92	-10
Strategic capital expenditures in non-current assets		-2,101	-218	-2,033	-215	-2,179	-233
Total strategic capital expenditures		-28,146	-2,922	-8,573	-907	-2,271	-243
Divestments	F6	29	3	369	39	49	5
Cash flow from capital expenditures and divestments		-28,117	-2,919	-8,204	-868	-2,222	-238
Cash flow before transactions with shareholders		-19,372	-2,011	359	38	5,328	570
Private placement to non-controlling interests		28	3	435	46	-	-
Dividend to non-controlling interests		-285	-30	-190	-20	-216	-23
Transactions with shareholders		838	87	-14,571	-1,541	-2,225	-238
Net cash flow		-18,791	-1,951	-13,967	-1,477	2,887	309
Net debt		2017		2016		2015	
		SEKm	EURm	SEKm	EURm	SEKm	EURm
Net debt, January 1²⁾		-35,173	-3,680	-19,058	-2,087	-25,066	-2,629
Net cash flow ¹⁾		-18,791	-1,951	-13,967	-1,477	2,887	309
Remeasurements to equity ¹⁾		1,061	110	-1,570	-166	1,281	137
Exchange rate effects, etc.		436	189	-578	50	1,840	96
Net debt, December 31²⁾		-52,467	-5,332	-35,173	-3,680	-19,058	-2,087

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.63 (9.46; 9.35) was used.

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.84 (9.56; 9.13) was used for net debt.

Consolidated cash flow statement CF

Group	Note	2017		2016		2015	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Operating activities							
IS Profit before tax		10,723	1,113	8,173	864	8,856	947
T:1 Adjustment for non-cash items		5,717	594	6,791	718	4,635	496
		16,440	1,707	14,964	1,582	13,491	1,443
Paid tax	B4	-2,971	-308	-3,782	-400	-2,194	-235
Cash flow from operating activities before changes in working capital		13,469	1,399	11,182	1,182	11,297	1,208
Cash flow from changes in working capital							
Change in							
Inventories		-1,703	-177	1,059	112	-1,407	-150
Operating receivables		1,522	158	-298	-31	-1,029	-110
Operating liabilities		-559	-58	835	88	1,919	205
Cash flow from operating activities		12,729	1,322	12,778	1,351	10,780	1,153
Investing activities							
Company acquisitions	F6	-13,070	-1,357	-4,416	-467	-72	-8
Divestments	F6	29	3	369	39	49	5
T:2 Investments in intangible assets and property, plant and equipment		-6,160	-640	-6,339	-670	-5,679	-607
Sale of property, plant and equipment		152	16	83	9	207	22
Loans granted to external parties		-287	-30	-	-	-	-
Repayment of loans from external parties		-	-	184	19	186	20
Sale of securities		-	-	-	-	2,046	219
Cash flow from investing activities		-19,336	-2,008	-10,119	-1,070	-3,263	-349
Financing activities							
Private placement to non-controlling interests		28	3	435	46	-	-
Acquisition of non-controlling interests		-2	-	-	-	-11	-1
Change, receivable from Group companies		952	99	10,403	1,100	-382	-41
Loans raised		31,037	3,222	16,148	1,708	11,100	1,187
Amortization of debt		-25,982	-2,697	-15,614	-1,651	-14,657	-1,568
Dividend to non-controlling interests		-285	-30	-190	-20	-216	-23
Dividend		-	-	-	-	-	-
Transactions with shareholders		838	87	-14,571	-1,541	-2,225	-238
Cash flow from financing activities		6,586	684	-3,389	-358	-6,391	-684
Cash flow for the period		-21	-2	-730	-77	1,126	120
Cash and cash equivalents, January 1 ²⁾		4244	444	4,828	529	3,806	399
Exchange differences in cash and cash equivalents		-116	-25	146	-8	-104	10
Cash and cash equivalents, December 31 ²⁾	E2	4,107	417	4,244	444	4,828	529

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.63 (9.46; 9.35) was used.

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.84 (9.56; 9.13) was used.

For the Group's liquidity reserve, refer to the Risk and risk management section on page 71.

T:1 Adjustment for non-cash items

SEKm	2017	2016	2015
Depreciation/amortization and impairment of non-current assets	6,110	5,701	5,606
Gain on asset sales and swaps	8	51	22
Gain/loss on sale of securities	-	-	-970
Gain/loss on divestments	-17	-149	-
Unpaid relating to efficiency program	3	578	180
Payments relating to efficiency program already recognized	-435	-196	-274
Revaluation of previous share upon acquisition	-72	-	-
Provision for ongoing competition case	-	813	-
Provision for tax of a non-recurring nature relating to non-current assets	459	-	-
Reversal of provision for ongoing competition case	-248	-	-
Other	-91	-7	71
Total	5,717	6,791	4,635

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

SEKm	2017	2016	2015
Measures to raise the capacity level of operations (Strategic capital expenditures)	-2,101	-2,033	-2,179
Measures to uphold capacity level (Current capital expenditures)	-4,064	-4,306	-3,500
Investments through finance leases	5	-	-
Total	-6,160	-6,339	-5,679

Interest paid, SEKm	2017	2016	2015
Interest paid	-845	-879	-1,135
Interest, Group companies	-	106	130
Interest received	156	78	56
Total	-689	-695	-949

Change in liabilities attributable to financing activities

SEKm	Value at January 1	Cash flow	Acquisitions	Translation differences	Measurement at fair value	Reclassifications	Change in accrued interest	Value at December 31
Non-current financial liabilities	31,299	10,255	11,113	-513	-	-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	-616	-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	-617	-1,061	748	72	58,110

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

Cash flow from operating activities			
SEKm	2017	2016	2015
Cash flow from operating activities	12,729	12,778	10,780
Adjustment items			
Current capital expenditures	-3,911	-4,222	-3,293
Accrued interest	-73	8	63
Other	-	-1	-
Cash flow from current operations according to consolidated operating cash flow statement	8,745	8,563	7,550
Cash flow from investing activities			
SEKm	2017	2016	2015
Cash flow from investing activities	-19,336	-10,119	-3,263
Adjustment items			
Current capital expenditures	3,911	4,222	3,293
Loans granted to external parties	287	-	-
Sale of securities	-	-	-2,046
Repayment of loans from external parties	-	-184	-186
Net debt in acquired and divested companies	-13,034	-2,124	-
Acquisition of non-controlling interests	-2	-	-11
Financial liability (earn-out payment) upon acquisition	-	-	-9
Investments through finance leases	-5	-	-
Settled financial debt pertaining to acquisitions in earlier years	62	-	-
Other	-	1	-
Cash flow from strategic capital expenditures and divestments according to the consolidated operating cash flow statement	-28,117	-8,204	-2,222
Cash flow for the period			
SEKm	2017	2016	2015
Cash flow for the period	-21	-730	1,126
Adjustment items			
Amortization of debt	25,982	15,614	14,658
Loans raised	-31,037	-16,148	-11,100
Loans granted to external parties	287	-	-
Sale of securities	-	-	-2,046
Repayment of loans from external parties	-	-184	-186
Change, receivable from Group companies	-952	-10,403	382
Net debt in acquired and divested operations	-13,034	-2,124	-
Financial liability (earn-out payment) upon acquisition	-	-	-9
Investments through finance leases	-5	-	-
Settled financial debt pertaining to acquisitions in earlier years	62	-	-
Accrued interest	-73	8	63
Other	-	-	-1
Net cash flow according to consolidated operating cash flow statement	-18,791	-13,967	2,887

Consolidated balance sheet ^{BS}

Group	Note	2017		2016		2015	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Non-current assets							
Goodwill	D1	31,697	3,221	19,253	2,014	15,412	1,688
Other intangible assets	D1	21,424	2,177	7,665	802	7,351	805
Property, plant and equipment	D2	48,482	4,927	47,494	4,969	42,402	4,643
Participations in joint ventures and associates	F3	1,062	108	1,096	115	1,041	114
Shares and participations	F5	32	3	32	3	33	4
Surplus in funded pension plans	C5	1,148	117	335	35	35	4
Non-current receivables, Group companies	G4	–	–	–	–	39	4
Non-current financial receivables, Group companies	G4	–	–	3	0	3	0
Non-current financial assets	E2	552	56	714	75	728	80
Deferred tax assets	B4	2,232	227	1,457	153	1,056	116
Other non-current assets		469	48	241	25	149	16
Total non-current assets		107,098	10,884	78,290	8,191	68,249	7,474
Current assets							
Inventories	D3	13,739	1,396	10,944	1,145	11,229	1,230
Trade receivables	E3	17,607	1,789	15,843	1,658	14,808	1,622
Current tax assets	B4	769	78	740	77	868	95
Current receivables, Group companies	G4	–	–	57	6	166	18
Current financial receivables, Group companies	G4	–	–	1,433	150	12,207	1,337
Other current receivables	D4	2,549	259	2,333	244	2,100	230
Current financial assets	E2	1,105	112	244	26	776	85
Non-current assets held for sale	G1	42	4	156	16	120	13
Cash and cash equivalents	E2	4,107	417	4,244	444	4,828	529
Total current assets		39,918	4,055	35,994	3,766	47,102	5,159
Total assets		147,016	14,939	114,284	11,957	115,351	12,633
EQUITY AND LIABILITIES							
Equity	E8						
Owners of the Parent							
Share capital		2,350	239	0	0	0	0
Reserves		3,154	321	4,061	425	1,501	164
Retained earnings		36,785	3,739	29,143	3,049	41,485	4,544
		42,289	4,299	33,204	3,474	42,986	4,708
Non-controlling interests		7,281	740	6,376	667	5,289	579
Total equity		49,570	5,039	39,580	4,141	48,275	5,287
Non-current liabilities							
Non-current financial liabilities	E4	47,637	4,841	31,299	3,275	21,463	2,351
Non-current liabilities, Group companies	G4	–	–	48	5	–	–
Provisions for pensions	C5	4,541	462	5,273	552	2,919	320
Deferred tax liabilities	B4	7,090	721	3,872	405	3,756	411
Other non-current provisions	D6	1,481	151	1,407	147	886	97
Other non-current liabilities	D5	79	8	72	7	146	16
Total non-current liabilities		60,828	6,183	41,971	4,391	29,170	3,195
Current liabilities							
Current financial liabilities	E4	7,201	732	5,089	533	12,402	1,359
Current liabilities, Group companies	G4	–	–	259	27	341	37
Current financial liabilities, Group companies	G4	–	–	485	51	852	93
Trade payables		14,748	1,499	12,972	1,357	11,869	1,300
Current tax liabilities	B4	553	56	915	96	808	88
Current provisions	D6	1,547	157	1,409	147	889	97
Other current liabilities	D5	12,569	1,277	11,604	1,214	10,745	1,177
Total current liabilities		36,618	3,721	32,733	3,425	37,906	4,151
Total liabilities		97,446	9,904	74,704	7,816	67,076	7,346
Total equity and liabilities		147,016	14,943	114,284	11,957	115,351	12,633
Contingent liabilities and pledged assets, see Note G3 on page 142.							
Capital employed		102,037	10,370	74,753	7,821	67,333	7,374
Net debt		52,467	5,332	35,173	3,680	19,058	2,087

¹⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.56 (913; 9.53) was used.

A. ACCOUNTING PRINCIPLES AND USE OF ALTERNATIVE PERFORMANCE MEASURES (APM)

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

READING INSTRUCTIONS

General accounting principles **AP** and new accounting rules are presented below. Other accounting principles considered material by Essity are presented in conjunction with the respective notes. The same principles are usually applied in both the Parent Company and the Group. In some cases, the Parent Company applies principles other than those used by the Group and, in such cases, these principles are specified under the respective note in the section about the Parent Company.

Key assessments and assumptions **KAA** are presented under the respective notes; see application of assessments on page 102.

Amounts that are reconcilable to the balance sheet, income statement, cash flow statement and the operating cash flow statement are marked with the following symbols:

BS	Balance sheet
IS	Income statement
CF	Cash flow statement
OCF	Operating cash flow statement
Txix	Reference to table in note

BASIS FOR PREPARATION

Essity's financial statements are prepared in accordance with the Annual Accounts Act and International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), as adopted within the EU, and the Swedish Financial Reporting Board, Recommendation RFR 1 Supplementary Accounting Rules for Groups. The Parent Company's financial statements are prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2, Reporting by Legal Entities, and the Annual Accounts Act. The accounts for both the Group and the Parent Company relate to the fiscal year that ended on December 31, 2017. Essity applies the historical cost method for measurement of assets and liabilities except for available-for-sale financial assets and financial assets and liabilities, including derivative instruments, measured at fair value through profit or loss, which are measured at fair value either through profit or loss or other comprehensive income.

New presentation format for the income statement

Essity has modified the presentation format for the income statement and the 2016 and 2015 comparative years have been restated. According to the table below, amortization of acquisition-related intangible assets has been separated from "Cost of goods sold" and "Sales, general and administration" and recognized below on a new line, "Operating profit before amortization of acquisition-related intangible assets (EBITA)". In a corresponding manner, depreciation/amortization and impairment of acquisition-related intangible assets included in items affecting comparability has been recognized separately. The reason for the reclassification is to clarify earnings before the effects of amortization of acquisition-related intangible assets.

ognized separately. The reason for the reclassification is to clarify earnings before the effects of amortization of acquisition-related intangible assets.

New or amended accounting standards 2017

In this Annual Report, the Group and Parent Company apply the new and amended standards that came into effect from January 1, 2017.

IAS 7 Statement of Cash Flows (amendment)

IAS 7 has been amended and entails expanded disclosure requirements relating to changes arising from financing activities. The Group provides information in the section concerning the Group's cash flow statement on page 99.

IAS 12 Income Taxes (amendment)

The amendment clarifies the recognition of deferred tax assets for holdings of debt instruments measured at fair value.

The above amendments did not have any material impact on the Group's or Parent Company's results or financial position.

New or amended accounting standards after 2017

A number of new and amended IFRS have not yet come into effect and have not been applied in advance in preparing the Group's and the Parent Company's financial statements. The IFRS that may affect the financial statements of the Group or the Parent Company are described below. Other new or amended standards or interpretations published by IASB are not expected to have any impact on the Group's or the Parent Company's financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and is a new standard that replaces IAS 39. The standard is divided into three areas: classification and measurement of financial assets and liabilities, impairment and hedging.

The company's business model for managing the asset and the nature of the asset's contractual cash flows comprise the basis for classification and measurement, in which the financial assets are classified in one of the following three categories: 1) financial assets measured at amortized cost 2) financial assets measured at fair value through other comprehensive income and 3) financial assets measured at fair value through profit or loss. The new standard entails essentially unchanged recognition of financial liabilities.

The standard introduces a new model for impairment of financial assets based on expected losses and not as previously under IAS 39 until the loss event has already occurred. Under the model, provisions are established for credit losses that may arise within the next 12 months for assets with low credit risk. In other cases where the credit risk has increased significantly since initial recognition and where the credit risk is not low, provisions are established for credit losses that are expected to occur during the full lifetime of the asset.

New presentation format, income statement

SEKm	Recognition as per 2016 Annual Report 2016	Change	Recognition as per 2017 Annual Report 2016	Recognition as per 2016 Annual Report 2015	Change	Recognition as per 2017 Annual Report 2015
Net sales	101,238		101,238	98,519		98,519
Cost of goods sold	-72,476	38	-72,438	-71,960	62	-71,898
Items affecting comparability	-532	0	-532	-267	0	-267
Gross profit	28,230	38	28,268	26,292	62	26,354
Sales, general and administration	-17,086	121	-16,965	-16,287	71	-16,216
Items affecting comparability	-2,293	180	-2,113	-519	494	-25
Share of profits of associates and joint ventures	157	0	157	198	0	198
Operating profit before amortization of acquisition-related intangible assets (EBITA)		339	9,347		627	10,311
Amortization of acquisition-related intangible assets		-159	-159		-133	-133
Items affecting comparability		-180	-180		-494	-494
Operating profit	9,008	0	9,008	9,684	0	9,684

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

A simplified model has been developed for trade receivables and lease receivables, whereby anticipated losses are recognized over the estimated remaining term of the receivable. Upon review of the Group's financial assets, it was concluded that the effects primarily relate to expected losses on trade receivables. In the first quarter of 2018, Essity intends to report a non-recurring effect of SEK 7m in equity due to a changed calculation model for expected credit losses on trade receivables.

The new standard focuses to a great extent on reflecting an entity's risk management strategies in hedge accounting and allowing more hedging strategies to qualify for hedge accounting.

Essity has evaluated the new rules for hedge accounting and has concluded that these may provide Essity with greater scope to apply hedge accounting.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers establishes a new regulatory framework for the manner in which a company should recognize revenue. The new standard will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC (International Financial Reporting Interpretations Committee) 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC (Standing Interpretation Committee of the IASC, predecessor to the IFRIC) 31 Revenue – Barter Transactions Involving Advertising Services. The standard will apply from January 1, 2018. During the year, IFRS 15 Clarification was issued, providing further guidance on when goods or services are to be recognized separately or jointly with other goods and services.

The standard regulates commercial agreements (contracts) with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently. In certain cases, the good/service can be integrated with other obligations in the contract, whereby a package of goods/services comprises a joint obligation. The standard establishes rules for calculating the transaction price for delivery of goods and services and the manner in which this can be allocated among the various performance obligations. Revenue is recognized when control has passed to the customer by the customer being able to use or benefit from the good/service, at which point it is deemed to have been transferred. Control may be passed at a given point in time, which is usually the case for sales. In other cases, a performance obligation may be satisfied over time, which is common for services. Three different criteria have been established for determining whether a performance obligation is satisfied over time. Either the customer receives and consumes all of the benefits as the obligation is performed; the company's performance enhances an asset that the customer controls; or the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for performance completed to date. IFRS 15 aims to create more comparable and transparent financial reporting, which will be achieved by separating customer contracts as specified above and by providing significantly expanded disclosure regarding how and when revenue is generated. Disclosures encompass both quantitative and qualitative information to help the users of financial statements to understand the company's business. Disclosures include information regarding contracts with customers, separation of revenue into geographical regions, categories or similar with reconciliation against the recognized segment, information regarding balance sheet items and information concerning significant assessments.

In 2016, Essity initiated a project to evaluate the consequences of implementing IFRS 15. Via a questionnaire, the project group identified the

various types of contracts that exist within Essity and provided training to various parts of the Group in what is entailed by the transition to IFRS 15.

The conclusion can be drawn that Essity's sales mainly comprise sales of products and, to a limited extent, services, but to ensure separate accounting of sales and services, separate accounts have been created for this.

The new reporting standard has transitioned from a risk and reward concept to focusing more on when control has been transferred to the customer. The project group has created awareness regarding and controls for avoiding material deviations between the point in time for revenue recognition and the point in time when control of the sold goods has been transferred to the buyer. Based on the above, this means that the new standard did not have any material impact on Essity's revenue recognition.

IFRS 16 Leases

In January 2016, the IASB published a new leases standard that will replace IAS 17 Leases and associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that all assets and liabilities attributable to all leases with a few exceptions, are recognized in the balance sheet. This type of recognition is based on the approach that the lessee is entitled to use an asset over a specific period and simultaneously has an obligation to pay for this entitlement. The only exceptions are leases with a term of less than 12 months or assets with a low value, such as leases of computers and office furniture. Recognition for the lessor will remain unchanged. The standard is applicable to fiscal years beginning on January 1, 2019 or later. Prospective application is permitted. Essity has formed a project team that will prepare the Group to adapt its reporting to the new standard. The project team is currently identifying the leases within the Group and assessing which measures are necessary to adapt its reporting to the new standard. The cost of operational leases for the fiscal year 2017 amounted to SEK 776m. As of December 31, 2017, the undiscounted amount relating to payment commitments for operational lease agreements totaled approximately SEK 2,500m. However, the application of IFRS 16 would entail that a lower amount would be recognized as a liability and asset given that components of the lease agreements may refer to service and, moreover, the future payment commitments are also to be discounted. For more information about the company's lease commitments, including the maturity structure, refer to Note G2 Leases on page 141.

USE OF ASSESSMENTS **KAA**

The preparation of financial statements in accordance 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 122

Pensions, C5 Remuneration after employment, page 119

Taxes, B4 Income taxes, page 115

Provisions, D6 Other provisions, page 125

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 ventures or joint operations. 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 136.

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 on net assets are recognized as translation differences in other comprehensive income, which is a component of equity (translation reserve).

Exchange rate effects arising from financial instruments used to hedge foreign subsidiaries' net assets are recognized in the same manner in

other comprehensive income, which is a component of equity (translation reserve). On divestment, the translation difference on the foreign subsidiary and 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 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 borrowings and financial investments are recognized as other financial items. Non-monetary assets and liabilities recognized at historical cost are translated at the exchange rate prevailing on the transaction date.

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 under other comprehensive income.

If a financial instrument has been classified as available-for-sale financial assets, 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.

REVENUE RECOGNITION

Sales revenue, which is synonymous with net sales, refers to the fair value of consideration received or receivable for goods and services sold within Essity's ordinary activities. Revenue is recognized when delivery to the customer has taken place according to the terms of the sale. Other revenue includes compensation for sales that are not included in Essity's ordinary activities and includes rental revenue, 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. Interest income is recognized in accordance with the effective interest method. Dividends received are recognized when the right to receive a dividend has been established.

GOVERNMENT GRANTS

Government grants are measured at fair value when there is reasonable assurance that 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 (APM) applied as of July 3, 2016.

The Annual Report refers to a number non-IFRS performance measures used to assist investors and company management in analyzing the compa-

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

A number of financial performance measures and how these are used to analyze the company's objective are described below.

CALCULATION OF PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

RETURN MEASURES		Return is a financial term that describes how must 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.		
SEKm		2017	2016	2015
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE				
EBITA		12,550	9,347	10,311
Items affecting comparability		855	2,645	292
Adjusted EBITA		13,405	11,992	10,603
Average capital employed		90,167	73,145	70,115
Adjusted return on capital employed, ROCE		14.9%	16.4%	15.1%

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 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.		
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. Deferred tax liability in untaxed reserves has been calculated at a 22.0% rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden.	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		2017	2016	2015
CAPITAL EMPLOYED				
Total assets		147,016	114,284	115,351
Financial assets		-6,912	-6,973	-18,577
Non-current, non-interest-bearing liabilities		-8,650	-5,399	-4,788
Current, non-interest-bearing liabilities		-29,417	-27,159	-24,653
Capital employed		102,037	74,753	67,333
CAPITAL EMPLOYED				
Personal Care		39,447	13,665	13,149
Consumer Tissue		43,569	40,082	40,903
Professional Hygiene		20,034	21,253	14,151
Other		-1,013	-247	-870
Capital employed		102,037	74,753	67,333
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		2017	2016	2015
WORKING CAPITAL				
Inventories		13,739	10,944	11,229
Trade receivables		17,607	15,843	14,808
Other current receivables		2,549	2,390	2,266
Trade payables		-14,748	-12,972	-11,869
Other current liabilities		-12,569	-11,863	-11,086
Other		-677	-199	-183
Working capital		5,901	4,143	5,165

Financial notes, Group

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 and capital investment shares.	Net debt is the most relevant measure for showing the company's total debt financing.		
SEKm		2017	2016	2015
NET DEBT				
Surplus in funded pension plans	1,148	335	35	
Non-current financial assets	552	717	731	
Current financial assets	1,105	1,677	12,983	
Cash and cash equivalents	4,107	4,244	4,828	
Financial assets	6,912	6,973	18,577	
Non-current financial liabilities	47,637	31,299	21,463	
Provisions for pensions	4,541	5,273	2,919	
Current financial liabilities	7,201	5,574	13,253	
Financial liabilities	59,379	42,146	37,635	
Net debt	52,467	35,173	19,058	
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.		
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 sales	Sales growth excluding exchange rate effects, acquisitions and divestments.	This measure is of major importance for management in its monitoring of underlying sales driven by changes in volume, price and product mix for comparable units between different periods.		
SEKm		2017	2016	2015
ORGANIC SALES				
Personal Care				
Organic sales	586	865	2,282	
Exchange rate effects	48	-1,313	1,015	
Acquisitions/Divestments	6,301	-245	-18	
Recognized change	6,935	-693	3,279	
Consumer Tissue				
Organic sales	231	1,110	2,183	
Exchange rate effects	223	-1,207	2,423	
Acquisitions/Divestments	0	0	0	
Recognized change	454	-97	4,606	
Professional Hygiene				
Organic sales	411	708	405	
Exchange rate effects	137	-168	2,179	
Acquisitions/Divestments	150	2,934	0	
Recognized change	698	3,474	2,584	
Group				
Organic sales	1,169	2,718	4,923	
Exchange rate effects	406	-2,688	5,617	
Acquisitions/Divestments	6,452	2,689	-18	
Recognized change	8,027	2,719	10,522	
ORGANIC SALES, %		2017	2016	2015
Previous period sales	101,238	98,519	87,997	
Organic sales growth	1,169	2,718	4,923	
Total organic sales for the period	102,407	101,237	92,920	
Organic sales, %	1%	3%	6%	

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.	Adjusted gross profit is stripped of items affecting comparability and is thus a better measure than gross profit for showing the company's earnings before the effect of costs such as selling and administrative costs.		
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 amortization of acquisition-related intangible assets/EBITA	Calculated as operating profit after depreciation of tangible 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 of tangible 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		2017	2016	2015
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA				
Operating profit		11,905	9,008	9,684
Amortization of acquisition-related intangible assets		560	159	133
Items affecting comparability, amortization of acquisition-related intangible assets		85	180	494
Operating profit before amortization of acquisition-related intangible assets/EBITA		12,550	9,347	10,311
EBITA margin		11.5%	9.2%	10.5%
Items affecting comparability, cost of goods sold		509	532	267
Items affecting comparability, sales, general and administration		346	2,113	25
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA		13,405	11,992	10,603
Adjusted EBITA margin		12.3%	11.8%	10.8%
Items affecting comparability	Under items affecting comparability, Essity includes costs in connection with acquisitions, restructuring, impairment and other specific events.	Separate reporting of items affecting comparability between periods provides a better understanding of the company's operating activities.		
Restructuring costs	Costs for impairment together with personnel costs in connection with restructuring.	This measure shows the specific costs that have arisen in connection with restructuring of a specific operation, which contributes to a better understanding of the underlying cost level in the continuing operations.		
Adjusted gross margin	Relates to adjusted gross profit as a percentage of net sales for the period.	Adjusted gross margin is stripped of items affecting comparability and is thus a better measure than gross margin for showing the company's margins before the effect of costs such as selling and administrative costs.		
EBITA margin	Operating profit before amortization of acquisition-related intangible assets as a percentage of net sales for the period.	The measure is a good complement to enable margin comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth.		
Adjusted EBITA margin	Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability, as a percentage of net sales for the year.	The measure is a good complement to enable margin comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth.		
Operating margin	Operating profit as a percentage of net sales for the year.	The operating margin is a key measure together with sales growth and capital turnover ratio for monitoring value creation.		
Adjusted operating margin	Operating profit, excluding items affecting comparability, as a percentage of net sales for the year.	Adjusted operating margin is key measure together with sales growth and capital turnover ratio for monitoring value creation.		
Adjusted operating profit	Calculated as operating profit before financial items and tax, excluding items affecting comparability.	Adjusted operating profit is a key ratio for control of the Group's profit centers and provides a better understanding of earnings performance of the operations than the non-adjusted operating profit.		
SEKm		2017	2016	2015
ADJUSTED OPERATING PROFIT				
Operating profit		11,905	9,008	9,684
Items affecting comparability		940	2,825	786
Adjusted operating profit		12,845	11,833	10,470
Adjusted operating margin		11.8%	11.7%	10.6%
Financial net margin	Net financial items divided by net sales.	This measure shows the relationship between net financial items and net sales.		
Adjusted profit before tax	Calculated as profit before tax, excluding items affecting comparability.	This is a useful measure for showing total profit for the company including financing, but not affected by taxes and items that affect comparability with previous periods.		

Financial notes, Group

Non-IFRS performance measure	Description	Reason for use of the measure		
Adjusted tax	Tax expenses for the period adjusted for tax expenses relating to items affecting comparability.	A useful measure to show the total tax expense for the period, adjusted for taxes related to items affecting comparability.		
SEKm		2017	2016	2015
ADJUSTED TAX				
Tax		-1,938	-3,931	-2,278
Tax relating to items affecting comparability		-253	-424	-467
Adjusted tax		-2,191	-4,355	-2,745
Adjusted profit for the period	Profit for the period after deducting items affecting comparability.	Shows the period's total earnings capacity.		
Net margin	Profit for the period as a percentage of net sales for the year.	The net margin shows the remaining share of net sales after all of the company's costs, including income tax, have been deducted.		
Earnings per share	Profit for the period attributable to owners of the Parent divided by the number of shares outstanding.	Earnings per share is a good measure of the company's profitability and is used to determine the value of a company's outstanding shares		
Adjusted earnings per share	Adjusted earnings for the period attributable to owners of the Parent, excluding amortization of acquisition-related intangible assets after tax divided by number of shares.	Adjusted earnings per share is a good measure of the company's profitability and is used to determine the value of a company's outstanding shares.		

CASH FLOW PERFORMANCE MEASURES		Various performance measures and costs that have impacted the company's cash flow		
Non-IFRS performance measure	Description	Reason for use of the measure		
Operating cash surplus	Calculated as operating profit with a reversal of depreciation, amortization and impairment of tangible and intangible assets Share of profits of associates and joint ventures, items affecting comparability and capital gains/losses are excluded.	This measure shows the cash flow generated by profit and is part of the follow-up of cash flow.		
Operating cash flow	Consists of the sum of operating cash surplus and change in working capital, with deductions for current capital expenditures in non-current assets and restructuring costs.	This is an important control measure used internally within the organization that shows the combined cash flow from operating activities including all parts that the units have control over themselves.		
SEKm		2017	2016	2015
OPERATING CASH FLOW				
Personal Care				
Operating cash surplus		7,238	5,314	5,018
Change in working capital		-237	289	-314
Current capital expenditures		-1,282	-805	-840
Restructuring costs, etc.		-266	-75	-72
Operating cash flow		5,453	4,723	3,792
Consumer Tissue				
Operating cash surplus		6,163	6,455	5,845
Change in working capital		-425	891	-130
Current capital expenditures		-1,749	-1,892	-1,437
Restructuring costs, etc.		-139	-255	-174
Operating cash flow		3,850	5,199	4,104
Professional Hygiene				
Operating cash surplus		5,649	5,515	4,858
Change in working capital		73	-30	-155
Current capital expenditures		-719	-1,267	-823
Restructuring costs, etc.		-592	-83	-317
Operating cash flow		4,411	4,135	3,563

Non-IFRS performance measure	Description	Reason for use of the measure		
Cash flow from current operations	Operating cash flow less net financial items and tax payments and taking into account other financial cash flow.	This measure illustrates the cash flow generated by operations and that can potentially be used for strategic initiatives such as strategic capital expenditures or acquisitions.		
Strategic capital expenditures in non-current assets	Strategic capital expenditures increase the company's future cash flow through capital expenditures to expand facilities, or new technologies that boost competitiveness.	Shows that size of the capital expenditures that are made in expansion and other growth measures.		
Current capital expenditures	Investments to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature.	Shows the size of the capital expenditures required to maintain existing manufacturing capacity.		

B. SALES AND EARNINGS

B1. 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 retailers' 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 retailers' 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.

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 Hygiene Category, Global Hygiene Supply Tissue and Global Hygiene Supply Personal Care). 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
2017 fiscal year						
REVENUES						
IS TB1:2 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
TB1:1 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

B1. SEGMENT REPORTING, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2016 fiscal year						
REVENUES						
IS TB1:2 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
TB1:1 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
2015 fiscal year						
REVENUES						
IS TB1:2 Net sales	34,344	41,657	22,527	–9	–	98,519
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	3,997	3,846	3,497	–737	–	10,603
Amortization of acquisition-related intangible assets	–7	–73	–53	–	–	–133
Adjusted operating profit/loss per operating segment	3,990	3,773	3,444	–737	–	10,470
TB1:1 Items affecting comparability	–614	–458	–160	446	–	–786
IS Operating profit/loss	3,376	3,315	3,284	–291	–	9,684
IS Financial income						312
IS Financial expenses						–1,140
IS Tax expense for the period						–2,278
IS Profit for the period						6,578
OTHER DISCLOSURES						
Assets	20,874	55,007	20,844	3,631	–4,624	95,732
BS Participations in joint ventures and associates	301	545	182	13	–	1,041
Unallocated financial assets				18,578		18,578
BS Total assets	21,175	55,552	21,026	22,222	–4,624	115,351
Investments/acquisitions	–1,810	–2,618	–1,077	–247	–	–5,752
Depreciation/amortization	–1,117	–2,037	–1,389	–87	–	–4,630
Expenses, in addition to depreciation/amortization, not matched by payments	6	18	6	–15	–	15

B1. SEGMENT REPORTING, CONT.

TB1:1 Items affecting comparability allocated by segment

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other	Total
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
2015 fiscal year					
Items affecting comparability – cost of goods sold	-9	-256	3	-5	-267
Items affecting comparability – sales, general and administration	-138	-175	-163	451	-25
Items affecting comparability – acquisition-related intangible assets	-467	-27	-	-	-494
Total	-614	-458	-160	446	-786

Operating segments: Essity is a leading global hygiene and health company that improves people's well-being through our products and solutions in the Personal Care, Consumer Tissue and Professional Hygiene business areas. Personal Care's offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Consumer Tissue's offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Professional Hygiene's offering 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. Other operations comprise Group-wide functions and non-allocated tax.

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.

Intra-Group deliveries: Revenues, expenses and results for the various operating segments were affected by intra-Group deliveries. Internal prices are market-based. Intra-Group deliveries are eliminated when preparing the consolidated financial statements.

Customers: Essity had no customers in 2017, 2016 or 2015 from which it generated income that accounts for more than 10% of the company's net sales. Essity's ten largest customers account for 22.9% (26.6; 26.4) of the company's sales.

B1b.SEGMENT REPORTING, CONT.

	Net sales – sold to ¹⁾						Net sales – sold by ¹⁾					
	2017		2016		2015		2017		2016		2015	
TB1:2 Group by country	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Sweden	2,518	2	2,501	2	2,422	2	2,908	3	2,742	3	2,700	3
EU excl. Sweden												
Germany	11,400	11	9,927	10	9,575	10	11,956	11	10,446	10	10,024	10
France	9,510	9	9,079	9	9,071	9	9,721	9	9,212	9	9,161	9
UK	7,832	7	8,267	8	9,029	9	7,865	7	8,276	8	9,043	9
Spain	5,665	5	5,489	5	5,450	6	5,748	5	5,622	6	5,746	6
Netherlands	3,286	3	2,965	3	2,904	3	3,503	3	3,235	3	3,161	3
Italy	3,236	3	2,913	3	2,871	3	3,636	3	3,224	3	3,226	3
Austria	1,713	2	1,563	2	1,498	2	1,802	2	1,679	2	1,646	2
Belgium	1,467	1	1,433	1	1,435	1	1,560	1	1,521	2	1,515	2
Finland	1,435	1	1,430	1	1,437	1	1,456	1	1,467	1	1,475	1
Denmark	995	1	930	1	957	1	967	1	953	1	976	1
Hungary	916	1	795	1	771	1	943	1	850	1	710	1
Poland	792	1	727	1	690	1	820	1	694	1	727	1
Greece	583	1	573	1	587	1	344	0	384	0	415	0
Czech Republic	570	1	534	1	505	1	546	0	503	0	482	0
Ireland	441	0	422	0	402	0	387	0	387	0	375	0
Portugal	358	0	360	0	441	0	299	0	257	0	240	0
Romania	313	0	265	0	219	0	309	0	272	0	239	0
Croatia	273	0	274	0	233	0	-	-	-	-	-	-
Slovakia	272	0	242	0	245	0	427	0	388	0	370	0
Lithuania	187	0	182	0	174	0	187	0	182	0	173	0
Rest of EU excl. Sweden	700	1	673	1	656	1	293	0	307	0	280	0
Total EU excl. Sweden	51,944	48	49,043	48	49,150	50	52,769	48	49,859	49	49,984	51
Rest of Europe												
Russia	3,209	3	2,879	3	3,024	3	3,443	3	3,061	3	3,178	3
Switzerland	1,299	1	1,231	1	1,219	1	1,252	1	1,195	1	1,200	1
Norway	1,184	1	1,111	1	1,131	1	1,144	1	1,117	1	1,130	1
Turkey	595	1	486	0	690	1	663	1	537	1	789	1
Ukraine	288	0	291	0	300	0	255	0	264	0	280	0
Rest of Europe, excl. EU	356	0	297	0	276	0	-	-	-	-	-	-
Total, Rest of Europe	6,931	6	6,295	6	6,640	7	6,757	6	6,174	6	6,577	7
TOTAL EUROPE	61,393	56	57,839	57	58,212	59	62,434	57	58,775	58	59,261	60
North America												
US	14,422	13	13,115	13	10,208	10	14,449	13	13,324	13	10,228	10
Canada	1,933	2	1,676	2	1,477	1	1,958	2	1,525	2	1,505	2
Rest of North America	5	0	4	0	4	0	-	-	-	-	-	-
TOTAL NORTH AMERICA	16,360	15	14,795	15	11,689	12	16,407	15	14,849	15	11,733	12
Latin America												
Mexico	4,223	4	4,015	4	4,113	4	4,736	4	4,509	4	4,680	5
Colombia	3,765	4	3,433	3	3,505	4	4,352	4	3,978	4	3,960	4
Ecuador	1,332	1	1,291	1	1,400	1	1,315	1	1,291	1	1,400	1
Chile	1,105	1	1,022	1	1,078	1	1,096	1	1,015	1	1,072	1
Brazil	658	1	460	0	563	1	658	1	460	0	561	1
Costa Rica	476	0	495	0	518	1	479	0	499	0	523	1
Argentina	410	0	345	0	429	0	417	0	372	0	452	0
Dominican Republic	265	0	255	0	216	0	109	0	121	0	114	0
Peru	241	0	252	0	219	0	16	0	12	0	7	0
Nicaragua	170	0	159	0	174	0	-	-	0	0	-	-
Rest of Latin America	771	1	704	1	722	1	105	0	94	-	98	-
TOTAL LATIN AMERICA	13,416	12	12,431	12	12,937	13	13,283	12	12,351	12	12,867	13
Asia												
China	10,982	10	10,089	10	9,277	9	10,843	10	11,272	11	10,456	11
Malaysia	1,326	1	1,292	1	1,337	1	1,631	1	1,679	2	1,701	2
Hong Kong	1,104	1	1,109	1	1,055	1	1,358	1	-	-	-	-
Japan	757	1	653	1	543	1	653	1	574	1	498	1
Taiwan	352	1	333	0	323	0	362	0	378	0	333	0
Singapore	216	0	206	0	240	0	185	0	183	0	186	0
India	182	0	163	0	109	0	180	0	163	0	108	0
Rest of Asia	1,292	1	1,011	1	1,060	1	533	0	272	0	290	0
TOTAL ASIA	16,211	15	14,856	15	13,944	14	15,745	15	14,521	14	13,572	14
Rest of the world												
South Africa	264	0	121	0	360	0	356	0	79	0	331	0
Tunisia	252	0	305	0	323	0	497	0	546	1	624	1
Libya	187	0	-	-	-	-	-	-	-	-	-	-
Morocco	107	0	107	0	106	0	51	0	43	0	0	0
Other rest of the world	1,075	2	784	1	948	1	492	0	74	0	131	0
TOTAL, REST OF THE WORLD	1,885	2	1,317	1	1,737	2	1,396	1	742	1	1,086	1
Total, Group	109,265	100	101,238	100	98,519	100	109,265	100	101,238	100	98,519	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.

B1c. SEGMENT REPORTING, CONT.

TB1:2 Group by country	Average number of employees									Non-current assets ¹⁾		
	2017	Of whom men, %	Of whom women, %	2016	Of whom men, %	Of whom women, %	2015	Of whom men, %	Of whom women, %	2017 SEKm	2016 SEKm	2015 SEKm
Sweden	2,075	56	44	1,990	56	44	1,941	55	45	2,648	5,294	4,706
EU excl. Sweden												
Germany	4,194	75	25	3,368	81	19	3,343	82	18	18,537	6,376	5,837
France	2,619	69	31	2,470	75	25	2,590	76	24	9,580	5,254	5,289
UK	1,589	77	23	1,505	81	19	1,511	81	19	5,209	4,160	4,689
Spain	1,213	75	25	1,182	75	25	1,173	76	24	3,826	3,707	3,812
Netherlands	1,269	82	18	1,198	84	16	1,173	84	16	2,915	2,187	2,804
Italy	869	76	24	851	77	23	830	78	22	3,263	2,567	2,043
Austria	624	82	18	616	82	18	628	82	18	819	728	707
Belgium	419	78	22	374	79	21	361	78	22	731	465	770
Finland	311	73	27	311	72	28	321	73	27	803	811	819
Denmark	95	38	62	91	36	64	84	37	63	3	3	3
Hungary	138	43	57	134	42	58	136	43	57	6	6	3
Poland	742	71	29	687	71	29	625	74	26	1,468	1,081	882
Greece	51	55	45	53	55	45	53	54	46	11	14	64
Czech Republic	65	42	58	67	37	63	68	41	59	1	1	-
Ireland	14	64	36	15	67	33	17	70	30	28	27	26
Portugal	22	55	45	21	52	48	21	43	57	72	71	68
Romania	32	38	62	31	39	61	24	33	67	-	10	-
Croatia	11	36	64	9	33	67	7	29	71	13	-	-
Slovakia	953	63	37	746	71	29	761	70	30	1,116	652	580
Lithuania	25	48	52	25	48	52	23	58	42	-	-	-
Rest of EU excl. Sweden	24	17	83	22	18	82	17	12	88	-	-	-
Total EU excl. Sweden	15,279	73	27	13,776	77	23	13,766	78	22	48,401	28,120	28,396
Rest of Europe												
Russia	1,391	60	40	1,374	60	40	1,296	59	41	1,709	1,817	1,431
Switzerland	38	34	66	30	37	63	29	42	58	201	88	82
Norway	107	38	62	104	38	62	105	36	64	2	2	2
Turkey	235	81	19	235	80	20	264	82	18	333	402	430
Ukraine	69	48	52	68	47	53	67	46	54	5	4	1
Rest of Europe excl. EU	-	-	-	-	-	-	-	-	-	-	-	-
Total, Rest of Europe	1,840	61	39	1,811	60	40	1,761	61	39	2,250	2,313	1,946
TOTAL EUROPE	19,194	70	30	17,577	73	27	17,468	73	27	53,299	35,727	35,048
North America												
US	3,588	73	27	3,376	76	24	2,497	75	25	17,400	14,686	7,805
Canada	325	62	38	283	65	35	281	64	36	591	261	224
Rest of North America	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL NORTH AMERICA	3,913	72	28	3,659	75	25	2,778	74	26	17,991	14,947	8,029
Latin America												
Mexico	2,871	72	28	2,389	76	24	2,438	73	27	3,968	3,370	3,666
Colombia	3,718	69	31	3,561	69	31	3,154	69	31	2,516	2,104	1,880
Ecuador	1,068	66	34	1,104	66	34	1,148	59	41	279	305	263
Chile	622	77	23	596	80	20	647	83	17	973	884	792
Brazil	784	59	41	507	62	38	501	61	39	1,383	816	411
Costa Rica	87	51	49	89	54	46	88	54	46	2	3	3
Argentina	359	60	40	345	60	40	302	60	40	53	69	63
Dominican Republic	141	68	32	115	73	27	107	64	36	158	10	8
Peru	15	53	47	12	50	50	10	37	63	-	-	-
Nicaragua	6	17	83	8	37	63	8	37	63	-	1	1
Rest of Latin America	23	39	61	23	52	48	22	50	50	-	1	5
TOTAL LATIN AMERICA	9,694	68	32	8,749	70	30	8,425	69	31	9,332	7,563	7,092
Asia												
China	9,457	56	44	8,957	55	45	8,166	53	47	14,219	13,022	12,493
Malaysia	1,351	45	55	1,399	45	55	1,306	44	56	814	845	762
Hong Kong	85	26	74	75	39	61	-	-	-	1,108	1,323	642
Japan	142	39	61	99	21	79	107	22	78	421	4	5
Taiwan	265	57	43	268	56	44	276	57	43	602	602	552
Singapore	32	34	66	30	30	70	32	31	69	11	9	8
India	429	87	13	229	96	4	185	94	6	616	-	175
Rest of Asia	294	58	42	60	43	57	90	29	71	973	171	156
TOTAL ASIA	12,055	55	45	11,117	54	46	10,162	52	48	18,764	15,976	14,793
Rest of the world												
South Africa	330	41	59	20	35	65	108	55	45	-	3	1
Tunisia	920	88	12	894	88	12	864	88	12	805	170	180
Libya	-	-	-	-	-	-	-	-	-	139	-	-
Morocco	56	52	48	13	46	54	-	-	-	1	1	-
Other rest of the world	223	64	36	120	91	9	146	89	11	1,272	25	22
TOTAL, REST OF THE WORLD	1,529	73	27	1,047	87	13	1,118	85	15	2,217	199	203
Total, Group	46,385	66	34	42,149	68	32	39,951	69	31	101,603	74,412	65,165

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

B2. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function				
SEKm		2017	2016	2015
IS	Cost of goods sold	-76,899	-72,438	-71,898
IS	Sales, general and administration	-19,130	-16,965	-16,216
IS	Amortization of acquisition-related intangible assets	-560	-159	-133
IS	TB2:1 Items affecting comparability	-940	-2,825	-786
Total		-97,529	-92,387	-89,033

Refer also to page 168 for a description of costs.

Operating expenses by type of cost

SEKm	Note	2017	2016	2015
TB2:2	Other income	1,045	970	923
	Change in inventory of finished products and products in progress ¹⁾	172	-82	640
	Raw materials and consumables ¹⁾	-38,191	-36,442	-37,271
	Personnel costs ¹⁾	C1	-20,142	-17,983
TB2:3	Other operating expenses ¹⁾	-34,444	-33,242	-31,654
	Amortization of intangible assets ¹⁾	D1	-853	-380
	Depreciation of property, plant and equipment ¹⁾	D2	-4,871	-4,764
	Impairment of intangible assets ¹⁾	D1	-132	-137
	Impairment of property, plant and equipment ¹⁾	D2	-254	-420
	Impairment of associates ¹⁾		-	-62
	Gain on sale of securities ¹⁾		-	970
	Revaluation of previously owned shares in associates ¹⁾	F6	72	-
	Gain on divestment ¹⁾²⁾		69	93
Total		-97,529	-92,387	-89,033

¹⁾ Including items affecting comparability.

²⁾ Including transaction costs and reversal of realized translation differences in divested companies to profit or loss.

TB2:1 Items affecting comparability

Distribution of items affecting comparability by type of cost

SEKm	2017	2016	2015
Impairment of inventory of finished products and products in progress	-4	-156	-29
Raw materials and consumables	-	-102	-16
Personnel costs	-69	-76	-295
Other operating expenses	-620	-1,948	-482
Amortization of intangible assets	-2	-43	-
Depreciation of property, plant and equipment	-	-36	-
Impairment of intangible assets	-132	-137	-497
Impairment of property, plant and equipment	-254	-420	-375
Impairment of associates	-	-	-62
Revaluation of previously owned shares in associates	72	-	-
Gain on divestment	69	93	-
Gain/loss on sale of securities	-	-	970
Total	-940	-2,825	-786

Distribution of items affecting comparability by category

SEKm	2017
Costs of split of SCA into two listed companies	-550
Integration and transaction costs related to the acquisition of BSN medical and inventory valuation arising from acquisition balance	-435
Closure of tissue production plant in the US	-255
Restructuring costs for the closure of the tissue machine in the UK	-75
Reversal of provisions for competition case in Poland	265
Other	110
Total	-940

In 2016, items affecting comparability related mainly to costs for legal disputes (SEK -1,086m), cost for the closure of tissue production plants in Spain and France (SEK -757m), the closure of the business in India (SEK -374m) and the baby diaper business in Mexico (SEK -174m), costs in connection with acquisition of Wausau Paper Corp. (SEK -204m), transaction costs for BSN medical (SEK -143m) and other costs (SEK -87m).

In 2015, items affecting comparability related mainly to costs for the impairment of trademarks associated with the baby diaper business in Mexico and the Everbeauty acquisition in Taiwan (SEK -465m), impairment of non-current assets mainly used in tissue production in France and baby diapers in Mexico (SEK -375m), integration cost in conjunction with the acquisition of Georgia Pacific (SEK -440m), costs in conjunction with the divestment of the business jet operation (SEK -170m), a gain from the sale of securities (SEK 970m) and other items (SEK 306m), which include transaction costs.

For information on items affecting comparability by segment, refer to Note B1 Segment reporting on page 111.

TB2:2 Other income

SEKm	2017	2016	2015
Sales not included in core operations	1,045	970	923
Total	1,045	970	923

TB2:3 Distribution of other operating expenses

SEKm	2017	2016	2015
Transport expenses	-7,425	-7,120	-7,108
Energy costs ¹⁾	-4,498	-4,448	-4,925
Purchased finished goods for resale	-5,053	-3,739	-3,464
Marketing costs	-5,777	-5,504	-5,207
Repairs and maintenance	-2,436	-2,537	-2,227
IT, telephony and lease of premises	-1,380	-1,445	-1,307
Other operating expenses, production	-3,671	-3,291	-3,417
Other operating expenses, distribution, sales and administration	-3,644	-3,090	-3,340
Other	-560	-2,068	-659
Total	-34,444	-33,242	-31,654

¹⁾ After deduction for revenues from energy in the amount of SEK 227m (194; 191).

Other disclosures

Exchange rate effects had a negative impact of SEK -10m (-97; -189) on operating profit. Government grants received reduced operating expenses by SEK 65m (41; 47). Costs for research and development amounted to SEK -1,239m (-1,211; -1,055) during the period.

B3. AUDITING EXPENSES

Auditing expenses

SEKm	2017	2016	2015
EY			
Audit assignments	-58	-49	
Auditing activities other than the audit assignment	-4	-	
Tax consultancy services	-1	-	
Other assignments	-2	-4	
Total EY	-65	-53	-
PwC			
Audit assignments	-14	-13	-55
Auditing activities other than the audit assignment	-	-1	-2
Tax consultancy services	-	-12	-17
Other assignments	-1	-11	-23
Total PwC	-15	-37	-97
Other auditors			
Audit assignments	-5	-5	-4
Tax consultancy services	-2	-4	-4
Other assignments	-2	-2	-8
Total other auditors	-9	-11	-16
Total	-89	-101	-113

B4. 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 years. Interest attributable to income tax and withholding taxes deducted at source on intra-Group transactions are also recognized as 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 in so far as it is probable that these can be utilized against future taxable profits. Deferred taxes are measured 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 an acquisition. Essity does not recognize tax that may arise on future dividends of the retained earnings of foreign subsidiaries. Any such future effects (withholding tax deducted at source and other deferred tax on profit-taking within the Group) are recognized when Essity can no longer control the reversal of such differences or when, for other reasons, it is probable that a reversal can 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. For transactions in equity or in other comprehensive income, the tax effect is recognized in equity or in other comprehensive income, respectively.

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 assets and tax liabilities is extremely complicated. This requires that assessments and assumptions be 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

and 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 125 and Note G3 Contingent liabilities and pledged assets on page 142.

Tax expense

Tax expense (+), tax income (-)						
SEKm	2017	%	2016	%	2015	%
Current tax						
Income tax for the period	2,927	27.3	2,888	35.3	1,879	21.2
Adjustments for prior periods	-112	-1.0	1,654	20.2	120	1.4
Current tax expense	2,815	26.3	4,542	55.5	1,999	22.6
Deferred tax						
Changes in temporary differences	-759	-7.1	-509	-6.2	209	2.3
Adjustments for prior periods	77	0.7	-387	-4.7	218	2.5
Revaluations	-195	-1.8	285	3.5	-148	-1.7
TB4:2 TB4:3 Deferred tax expense	-877	-8.2	-611	-7.4	279	3.1
IS Tax expense	1,938	18.1	3,931	48.1	2,278	25.7

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	2017	%	2016	%	2015	%
IS Profit before tax	10,723		8,173		8,856	
IS Tax expense	1,938	18.1	3,931	48.1	2,278	25.7
Expected tax expense	2,381	22.2	1,790	21.9	2,026	22.9
Difference	-443	-4.1	2,141	26.2	252	2.8
The difference is explained by:						
Permanent differences between accounting and taxable result						
Effects of subsidiary financing ¹⁾	-303	-2.8	-152	-1.9	-71	-0.8
Effects of acquisitions and divestments	2	0.0	53	0.6	-	-
Taxes relating to profit-taking in the Group	35	0.3	37	0.5	27	0.3
Other permanent effects ²⁾	147	1.4	372	4.6	-15	-0.2
Taxes related to prior periods ³⁾	-35	-0.3	1,267	15.5	338	3.8
Changes in the value of deferred tax assets ⁴⁾	311	2.9	670	8.2	18	0.2
Changes in tax rates ⁵⁾	-600	-5.6	-106	-1.3	-45	-0.5
Total	-443	-4.1	2,141	26.2	252	2.8

¹⁾ Effects of subsidiary financing during the year relate to the differences attributable to financing of the US business and include non-recurring effects of the restructuring of debt from the Netherlands to the US.

²⁾ Other permanent effects for the year include non-deductible costs for tax on non-current assets of SEK 67m that arose in connection with the split of SCA. The year 2016 relates primarily to non-deductible costs for ongoing competition cases.

³⁾ Taxes attributable to prior periods for 2016 relate, for the most part, to a tax dispute in Sweden totaling SEK 1,223m. The effect attributable to 2015 includes a tax provision of SEK 294m concerning a tax dispute in Spain.

⁴⁾ The change in value of deferred tax assets 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. The effect in 2015 includes the utilization of uncapped losses of SEK -81m in Belgium and SEK 62m relating to the operation in Asia.

⁵⁾ Effects relating to changed tax rates are primarily attributable to the revaluation of deferred taxes in the US.

B4. INCOME TAXES, CONT.

Current tax liability

Current tax liability (+), current tax asset (-)				
SEKm	2017	2016	2015	
Value, January 1	175	-60	82	
Current tax expense	2,815	4,542	1,999	
CF TB4:1 Paid tax	-2,971	-3,782	-2,194	
Other changes from acquisitions, divestments and reclassifications	-50	-154	-29	
Transactions with shareholders	-194	-366	43	
Translation differences	9	-5	39	
Value, December 31	-216	175	-60	
BS of which current tax liability	553	915	808	
BS of which current tax asset	769	740	868	

TB4:1 Tax by country

Tax expense (+), tax income (-) Tax payments by entities in different countries, paid tax (-), SEKm				
Country	Current tax expense	Deferred tax expense	Total tax expense	Paid tax
Germany	329	-90	239	-424
France	189	11	200	-198
Colombia	172	26	198	-151
Sweden	295	-97	198	-90
Belgium	201	-5	196	-196
Netherlands	165	12	177	-128
UK	47	110	157	-150
Spain	156	1	157	-155
Mexico	134	2	136	-139
Italy	101	19	120	-136
Russia	98	-3	95	-141
Chile	88	3	91	-99
Denmark	81	1	82	-35
Hong Kong	80	-3	77	-98
Brazil	1	62	63	-3
Poland	37	26	63	-33
Ecuador	57	1	58	-58
Austria	54	2	56	-18
Norway	43	2	45	-43
Finland	41	2	43	-54
Slovakia	47	-5	42	-53
Malaysia	46	-4	42	-32
Japan	49	-9	40	-45
China	103	-68	35	-126
Canada	35	-4	31	-4
US	-67	-839	-906	-69
Other countries ¹⁾	233	-30	203	-193
CF IS Total	2,815	-877	1,937	-2,971

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.

TB4:2 Deferred tax liability

Deferred tax liability (+), deferred tax asset (-)						
SEKm	Value, January 1	Deferred tax expense	Other changes ²⁾	Translation differences	Acquisitions and divestments ³⁾	Value, December 31
Intangible fixed assets	1,696	-116	0	-22	3,984	5,542
Property, plant and equipment	4,143	-821	0	-126	196	3,392
Financial non-current assets	-119	4	-4	3	-	-116
Current assets	-272	19	-15	8	-89	-349
Provisions	-673	357	-144	0	-33	-493
Liabilities	-1,200	187	-64	23	80	-974
Tax credits and tax loss carryforwards	-1,294	-574	3	24	-448	-2,289
Other	134	67	0	-4	-52	145
BS Total¹⁾	2,415	-877	-224	-94	3,638	4,858

¹⁾ The closing deferred tax liability comprises deferred tax assets of SEK 2,232m (1,457; 1,056) and deferred tax liabilities of SEK 7,090m (3,872; 3,756).

²⁾ Other changes include deferred tax recognized directly in equity and comprehensive income according to IAS 19 of SEK 217m and IAS 39 of SEK -441m.

³⁾ Acquisitions and divestments relate primarily to the acquisition of BSN medical.

TB4:3 Deferred tax liability, prior periods

Deferred tax liability (+), deferred tax asset (-), SEKm						
YEAR	Value, January 1	Deferred tax expense	Other changes	Translation differences	Transactions with shareholders	Value, December 31
BS 2016	2,700	-611	347	211	-232	2,415
BS 2015	2,080	279	597	93	-349	2,700

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 **TB4:2** in the amount of SEK 2,289m.

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 6,251m (4,648; 2,615), gross, at December 31, 2017. A large part of the change during the period is related to the acquisition of BSN medical. The change in uncapitalized loss carryforwards for the period includes SEK 1m that has expired and SEK 496m that was either utilized or capitalized. The tax value of uncapitalized tax loss carryforwards amounted to SEK 1,852m (1,373; 766). The expiry dates of these loss carryforwards are distributed as follows:

Loss carryforwards, gross, for which no deferred tax assets were recognized, SEKm			
Year of maturity	2017	2016	2015
Within 1 year	325	85	88
2 years	136	917	286
3 years	67	1	833
4 years	28	1	27
5 years or more	1,143	988	815
Indefinite life	4,552	2,656	566
Total	6,251	4,648	2,615

C. EMPLOYEES

C1. PERSONNEL COSTS

No remuneration was paid to senior executives in Essity for work in this company during the years 2015 and 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for senior executives were allocated from SCA to Essity for the years 2015 and 2016. Remuneration of senior executives in Essity for 2017 was paid in its entirety from Essity.

Personnel costs				
SEKm	Note	2017	2016	2015
Salaries and remuneration		-14,562	-12,801	-12,066
TC3:1 of which Executive Management Team		-126	-131	-154
of which Board	C4	-9	-8	-6
Pension costs		-1,193	-1,208	-1,170
of which defined benefit pension costs	C5	-425	-541	-597
of which other pension costs		-768	-667	-573
Other social security costs		-3,213	-2,840	-2,728
Other personnel costs		-1,174	-1,134	-979
Total¹⁾		-20,142	-17,983	-16,943

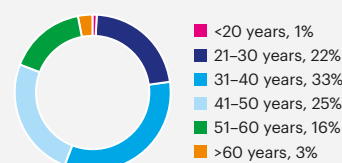
¹⁾ Costs for implemented efficiency-enhancement activities of SEK -69m (-67; -200) are included in total personnel costs.

C2. PERSONNEL DATA

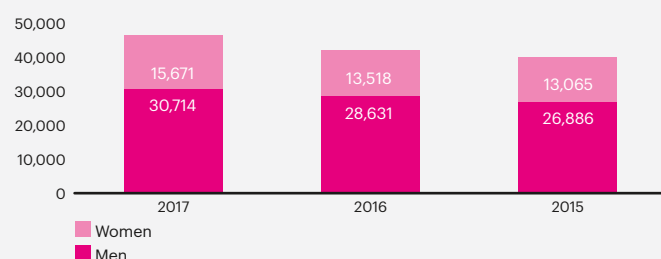
Personnel data			
	2017	2016	2015
Employees under 20 years of age, %	1	1	1
Employees over 60 years of age, %	3	2	2
Investments in skills-enhancement activities			
total, SEKm	152	141	139
per employee, SEK	3,300	3,400	3,500
Value added per employee	666	613	642
Proportion of university graduates, %	22	22	22
Number of employees who left the Group during the period	7,321	5,994	5,355
Number of employees who joined the Group during the period	13,585	8,150	5,823
Of whom, through acquisitions	5,518		

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.

Age distribution 2017



Average number of employees



In 2017, Essity had employees in 65 countries (59; 60). Women comprised 42% (43; 35) of the total number of Essity Board members and senior executives.

C3. REMUNERATION OF SENIOR EXECUTIVES

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 2017 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 manager's responsibility and authority. Variable remuneration is to be limited and linked to the fixed remuneration, based on performance results in relation to 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. There will be no severance pay.

Pension benefits should, wherever possible, only include 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 has the right to depart from the established guidelines if there is an individual case with special grounds. The guidelines do not take precedence over compulsory conditions in accordance with labor legislation or collective agreements. Furthermore, they are not applicable to existing contracts.

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 a short and long-term portion. 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, cost control, operating 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, operating cash flow and organic sales growth. Furthermore, for certain senior executives, a non-financial goal also applies accounting for 10-30% 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 a weighted index of competitors' and consumer companies' shares performance (TSR) over a three-year period.

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Outcome, variable remuneration

For the CEO, Executive Vice President and Central Staff Managers, STI resulted in 28 to 36% of fixed salary for 2017. STI resulted in variable remuneration corresponding to 17 to 46% of fixed salary for the Business Unit Presidents. The LTI target was achieved for 2015–2017, 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.

Pension

The CEO has a defined contribution pension based on an annual payment, to be paid by the company, amounting to 40% of the fixed salary, and in addition to the agreed contribution 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. Four of the other senior executives in Sweden have a combination of defined benefit and defined contribution pension plans that entitle the executives, on reaching the age of 60 or 65, to receive a retirement pension (including national pension benefits) of up to 45% of the average salary (excluding variable remuneration) three years prior to retirement age. For full pension, the individual must have been employed for at least 20 years calculated from 40 years of age. Upon termination of employment prior to reaching retirement age, a paid-up policy is received for pension payments from age 60 or 65, on condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years. In addition, beneficiaries' pension amounts to about 50% of retirement pension. In addition to the defined benefit pension, a pension is paid based on contributions paid by the company. The contributions paid for each year of service amount to 10% of the executive's fixed salary and are invested in a fund or traditional insurance chosen by the executive. Four senior executives in Sweden have a defined contribution pension plan (in addition to national pension benefits) into which the company pays 30 to 40% of the executives' fixed salary, which is invested in funds or traditional insurance. Five senior executives are employed in companies outside Sweden, of whom three executives are encompassed by defined contribution pension plans and two by defined benefit pension plans.

Remuneration of senior executives

No remuneration was paid to senior executives in Essity for work in this company during the years 2015 and 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for senior executives were allocated from SCA to Essity for the years 2015 and 2016. Remuneration of senior executives in Essity for 2017 was paid in its entirety from Essity.

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.

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 2018 Annual General Meeting adopt unchanged guidelines for remuneration of senior executives of Essity. With the salary situation prevailing in 2018 and an unchanged number of senior executives, the maximum outcome of variable remuneration could entail a cost for the Group, excluding social security costs, of approximately SEK 72m.

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 2016¹⁾

SEK	
President and CEO Magnus Groth ²⁾	4,495,961
Other senior executives (14 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.

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Remuneration and other benefits during the year 2015

SEK	Fixed salary	Variable remuneration ¹⁾	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth ²⁾	7,922,878	7,713,718 ⁴⁾	428,659	16,065,255
Other senior executives (16 people)	57,041,295	45,860,681 ⁵⁾	8,798,791	111,700,767
Former President and CEO Jan Johansson ³⁾	25,491,326	0	380,318	25,871,644
Total	90,455,499	53,574,399	9,607,768	153,637,666

¹⁾ Variable remuneration covers the 2015 fiscal year but is paid in 2016.

²⁾ President and CEO Magnus Groth, who assumed his position on March 1, 2015, collected a fixed annual salary of SEK 9.5m. In connection with the adjustment of the President and CEO's pension agreement to a defined contribution pension, his fixed annual salary was set at SEK 11m as of December 15. Accordingly, pension obligations will not continue to be earned.

³⁾ Former President and CEO Jan Johansson, who was dismissed from the position on March 1, 2015, will continue to collect contractual employment benefits during a period of notice of two years, with the exception of variable remuneration. The above amounts pertain to Jan Johansson's fixed salary, benefits and pension costs for the period from 2015 until February 28, 2017, when his employment ends.

⁴⁾ Of which LTI program SEK 3,992,608.

⁵⁾ Of which LTI program SEK 25,880,748.

Pension costs 2015¹⁾

SEK	
President and CEO Magnus Groth ²⁾	3,153,521
Other senior executives (16 people) ³⁾	60,803,840
Former President and CEO Jan Johansson ⁴⁾	25,027,185
Total	88,984,546

¹⁾ The pension costs pertain to the costs that affected profit for 2015, excluding special payroll tax.

²⁾ Outstanding pension obligations amount to SEK 16,304,000.

³⁾ Outstanding pension obligations amount to SEK 130,516,000.

⁴⁾ Outstanding pension obligations amount to SEK 83,014,000.

Obligations to former presidents and CEOs

For former presidents and CEOs, Essity has outstanding, unfunded obligations amounting to SEK 182m. 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 the years 2015 and 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for Board members were allocated from SCA to Essity for the years 2015 and 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 5, 2017 for the period until the next AGM in April 2018. No remuneration is paid to the President and CEO and other employees.

SEK	Board fee			Audit Committee fee			Remuneration Committee fee			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Pär Boman (Chairman)	2,100,000	2,100,000	2,100,000	250,000	200,000	130,000	135,000	135,000	135,000	2,485,000	2,435,000	2,365,000
Eva Björling	700,000	700,000								700,000	700,000	0
Maija-Liisa Friman	700,000	700,000								700,000	700,000	0
Annamarie Gardshol	700,000	700,000	700,000							700,000	700,000	700,000
Leif Johansson			700,000						105,000			805,000
Louise Svanberg	700,000	700,000	700,000				105,000	105,000	105,000	805,000	805,000	805,000
Johan Malmquist	700,000	700,000								700,000	700,000	0
Bert Nordberg	700,000	700,000	700,000	250,000	200,000	130,000	105,000	105,000		1,055,000	1,005,000	830,000
Barbara Milian Thoralfsson	700,000	700,000	700,000	330,000	250,000	175,000				1,030,000	950,000	875,000
Lars Rieben Sørensen	700,000									700,000		0
Total	7,700,000	7,000,000	5,600,000	830,000	650,000	435,000	345,000	345,000	345,000	8,875,000	7,995,000	6,380,000

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. Calculation is 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 120). 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" in 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 contributions the company has committed 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 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	2017	2016	2015
TC5:2 Defined benefit obligations	33,007	30,638	25,561
TC5:3 Fair value of plan assets	-30,418	-26,363	-23,839
TC5:4 Effect of asset ceiling	804	663	1,162
TC5:1 Provision for pensions, net	3,393	4,938	2,884

Surpluses in funded plans recognized as financial non-current assets amounted to **BS** SEK 1,148m (335; 35) on the balance sheet date and provisions for pensions totaled **BS** SEK 4,541m (5,273; 2,919). Defined benefit obligations include obligations in an amount of SEK 2,313m (2,268; 1,917) 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	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
Country								
Netherlands	1,977	1,109	1,308	4,394	-3,939	-	455	23
UK	1,952	6,974	7,137	16,063	-16,601	-	-538	19
Sweden	1,540	989	995	3,524	-2,959	804	1,369	19
Germany	1,954	534	1,324	3,812	-3,633	-	179	16
US	959	945	1,546	3,450	-2,760	-	690	13
Other	1,451	3	310	1,764	-526	-	1,238	13
Total	9,833	10,554	12,620	33,007	-30,418	804	3,393	

Netherlands

The plan is a defined benefit plan with contributions 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 contribution 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 and the employee. The plan is based on final salary and includes retirement pension, beneficiaries' pension and disability pension. The plan was closed to new participants in July 2007. The plan is managed by an independent fund, according to UK law. Surpluses in the pension fund remain in the fund assets but can be utilized in the form of contribution discounts. The plan is obligated to meet the minimum funding level according to an agreement with the pension fund.

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 contributions 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 contribution discounts.

Costs for the period for defined benefit plans

SEKm	2017	2016	2015
Current service cost, after deduction for premiums paid by the employees	-564	-511	-578
Past service cost	104	-25	-21
Pension-tax expense	-32	-27	-52
Remeasurement, net	-7	-5	2
Net interest income/expense	-136	-117	-140
Pension costs before effects of settlements	-635	-685	-789
Settlements	42	-	-
Pension costs after effects of settlements	-593	-685	-789

TC5:2 Defined benefit obligations

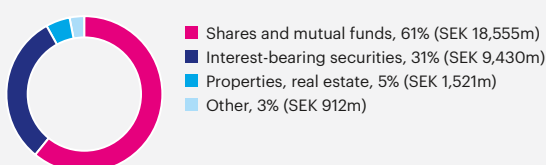
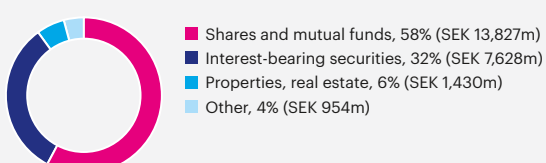
SEKm	2017	2016	2015
Value, January 1	30,638	25,561	26,943
Current service cost	575	524	588
Interest expense	858	922	843
Past service cost	-104	25	21
Pension-tax expense	32	27	52
Settlements and transfers	212	-16	5
Acquisitions and disposals	972	2,168	-
Benefits paid	-1,114	-1,062	-969
Pension taxes paid	-5	-49	-36
Remeasurement: financial assumptions	1,332	3,966	-1,555
Remeasurement: demographic assumptions	-198	-35	-89
Remeasurement: experience-based assumptions	-57	-571	-85
Pension taxes pertaining to remeasurement	55	30	-219
Transactions with shareholders	-	22	39
Translation differences	-189	-874	23
Value, December 31	33,007	30,638	25,561

Remeasurements in the defined benefit obligations comprise changes in financial assumptions, such as changes to the discount rate, etc., any changes in demographic assumptions and experience-based deviations. Experience-based deviations include unexpectedly high or low employee turnover or salary increases. For 2017, acquisitions and disposals relate to the acquisition of BSN medical.

TC5:3 Plan assets

SEKm	2017	2016	2015
Fair value, January 1	-26,363	-23,839	-22,992
Interest income	-740	-843	-728
Acquisitions and disposals	-661	-1,473	-
Contributions by plan participants	-11	-13	-10
Contributions by the employer	-1,367	-959	-952
Benefits paid, excluding settlements	1,110	1,054	964
Benefits paid for settlements	-226	30	2
Return in excess of recognized interest income	-2,316	-1,782	-119
Administrative expenses for pension obligations	32	40	24
Transactions with shareholders	-	443	-
Translation differences	124	979	-28
Fair value, December 31	-30,418	-26,363	-23,839

For 2017, acquisitions and disposals relate to the acquisition of BSN medical.

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:****The plan assets are distributed according to the following classes of assets, 2015:**

95% (95; 94) 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, 2017.

TC5:4 Effect of asset ceiling

SEKm	2017	2016	2015
Value, January 1	663	1,162	1,004
Interest expense	18	38	25
Transactions with shareholders	-	-498	-
Other changes to asset ceiling	123	-39	133
Value, December 31	804	663	1,162

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	UK	Germany	Nether-lands	US
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

2015					
Discount rate	3.27	3.85	1.94	2.45	4.38
Expected salary increase rate	2.75	3.50	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%	1,397
Price inflation, incl. salary inflation +0.25%	-990
Longevity +1 year	-1,250

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 Alecia. 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 2018 were calculated at SEK 929m. Contributions for multiemployer plans for 2018 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 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 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. 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 four cash-generating units for impairment testing as follows: the Consumer Tissue operating segment, the Professional Hygiene operating segment, the Personal Care operating segment, excluding Medical Solutions, and Medical Solutions. 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 to which the allocation pertains. During the period, the intangible asset is expensed in pace with carbon dioxide emissions made at the same time as 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 the value in use. Calculation of the value in use is based on the three-year strategic 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 strategic plan are extrapolated from the final year of the strategic plan using assumed sustained growth of 2% (2; 2).

D1. INTANGIBLE ASSETS, CONT.

Goodwill

SEKm	2017	2016	2015
Accumulated costs	31,956	19,428	15,452
Accumulated impairment	-259	-175	-40
Total	31,697	19,253	15,412
Value, January 1	19,253	15,412	15,660
Company acquisitions	13,290	3,375	-
Company divestments	-	-	-
Reclassifications	-	-	-
Impairment	-84	-135	-30
Translation differences	-762	601	-218
BS Value, December 31	31,697	19,253	15,412

Intangible assets excluding goodwill

SEKm	Trademarks			Licenses, patents and similar rights			Capitalized development costs			Total Other intangible assets		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Accumulated costs	13,840	6,782	6,647	11,404	4,472	3,831	352	12	35	25,596	11,266	10,513
Accumulated amortization	-358	-318	-244	-3,412	-2,890	-2,424	-43	-12	-31	-3,813	-3,220	-2,699
Accumulated impairment	-365	-452	-532	-65	-5	-3	-	-	-3	-430	-457	-538
Total	13,117	6,012	5,871	7,927	1,577	1,404	309	-	1	21,353	7,589	7,276
Value, January 1	6,012	5,871	6,373	1,577	1,404	1,448	-	1	4	7,589	7,276	7,825
Investments	-	-	-	749	155	221	71	-	-	820	155	221
Sales and disposals	-	-	-	-21	-1	-2	-	-	-	-21	-1	-2
Company acquisitions	7,095	33	-	6,112	180	-	265	-	-	13,472	213	-
Reclassifications	28	-	76	285	128	-2	-	-	-	313	128	74
Amortization ¹⁾	-68	-59	-27	-754	-321	-248	-31	-	-	-853	-380	-275
Impairment	-	-	-464	-48	-2	-	-	-	-3	-48	-2	-467
Translation differences	50	167	-87	27	34	-13	4	-1	-	81	200	-100
Value, December 31	13,117	6,012	5,871	7,927	1,577	1,404	309	-	1	21,353	7,589	7,276
TD1:1 Emission allowances, net value										71	76	75
BS Value, December 31 including emission allowances										21,424	7,665	7,351

¹⁾ Amortization of Trademarks and Customer relations is included in Sales, general and administration while for Licenses and patents is included in Cost of goods sold.

Impairment testing

Annual testing for impairment of goodwill and trademarks with indefinite useful lives is carried out in the fourth quarter. The testing showed that no impairment was needed for 2017, 2016 or 2015. The recoverable amount of the trademarks was determined through a present value calculation, in which expected future cash flows were discounted using a WACC before tax of between 5.4% and 18.7%, depending on the market, to determine the value in use. 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 to determine whether any impairment is needed. During the period, goodwill was impaired by SEK -84m in connection with the closure of a minor Personal Care operation.

Distribution by operating segment

SEKm	Goodwill			Trademarks			WACC, before tax %		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Personal Care	16,039	3,036	2,757	8,230	1,109	1,069	9.5	11.3	10.3
Consumer Tissue	9,276	9,335	9,416	4,878	4,891	4,792	9.2	8.3	8.6
Professional Hygiene	6,382	6,882	3,239	9	12	10	8.2	8.3	7.9
Total	31,697	19,253	15,412	13,117	6,012	5,871			

TD1:1 Emission allowances

SEKm	2017	2016	2015
Accumulated costs	71	88	86
Accumulated revaluation of surplus	0	-12	-11
Total	71	76	75
Value, January 1	76	75	70
Emission allowances received	47	58	53
Purchases	17	-	4
Settlement with the government	-71	-64	-50
Revaluation of surplus	0	-1	-5
Translation differences	2	8	3
Value, December 31	71	76	75

D2. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment is recognized 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. The cost of properties and production facilities included in major projects include running-in and start-up costs. 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 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

Carrying amounts

SEKm	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Accumulated costs	21,158	20,253	18,293	4,014	3,887	3,917	73,111	71,071	62,420	4,678	3,901	2,774
Accumulated depreciation	-8,800	-8,097	-7,059	-542	-498	-422	-43,710	-41,577	-36,235	-1	-24	-
Accumulated impairment	-295	-331	-255	-26	-64	-66	-1,073	-992	-965	-32	-35	-
Total	12,063	11,825	10,979	3,446	3,325	3,429	28,328	28,502	25,220	4,645	3,842	2,774
Value, January 1	11,825	10,979	10,895	3,325	3,429	3,628	28,502	25,220	25,555	3,842	2,774	3,521
Investments	607	191	406	22	26	23	1,394	2,054	1,731	4,170	3,979	3,329
Sales and disposals	-17	-12	-2	-5	-11	-2	-78	-107	-132	-1	-	-22
Company acquisitions	299	511	-	64	27	-	767	2,290	-	221	68	-
Company divestments	-14	-	-	-1	10	-	-16	-	-48	-	-	-
Reclassifications	389	505	849	113	-161	24	2,779	2,297	2,842	-3,507	-3,066	-3,915
Depreciation ¹⁾	-730	-707	-757	-47	-44	-45	-4,094	-3,989	-3,687	-	-24	-
Impairment	-65	-159	-39	-11	-102	-45	-178	-127	-291	-	-32	-
Translation differences	-231	517	-373	-14	151	-154	-748	864	-750	-80	143	-139
Value, December 31	12,063	11,825	10,979	3,446	3,325	3,429	28,328	28,502	25,220	4,645	3,842	2,774

¹⁾ Included primarily in Cost of goods sold.

Total property, plant and equipment

SEKm	2017	2016	2015
Accumulated costs	102,961	99,112	87,404
Accumulated depreciation	-53,053	-50,196	-43,716
Accumulated impairment	-1,426	-1,422	-1,286
Total	48,482	47,494	42,402
Value, January 1	47,494	42,402	43,599
Investments	6,193	6,250	5,489
Sales and disposals	-101	-130	-158
Company acquisitions	1,351	2,896	-
Company divestments	-31	10	-48
Reclassifications	-226	-425	-200
Depreciation ¹⁾	-4,871	-4,764	-4,489
Impairment	-254	-420	-375
Translation differences	-1,073	1,675	-1,416
BS Value, December 31	48,482	47,494	42,402

¹⁾ Included primarily in cost of goods sold.

Impairment losses for the year totaling SEK -254m mainly arose from the closure of a tissue production facility in the US and the close down of a tissue machine in the UK.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 41m (19; 47) and in construction in progress in an amount of SEK 0m (31; -). The average interest rate used was 5% (10; 8).

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 sales price is the calculated sales price received for normal business transactions less calculated sales costs.

Inventories

SEKm	2017	2016	2015
Raw materials and consumables	4,162	3,156	3,582
Spare parts and supplies	1,513	1,443	1,284
Products in progress	1,420	1,262	1,171
Finished products	6,641	5,080	5,183
Advance payments to suppliers	3	3	9
BS Total	13,739	10,944	11,229

Impairment of inventories amounted to SEK 47m (288; 79), of which SEK 4m (258; 45) was recognized in conjunction with restructuring as an item affecting comparability, refer to Note B2 Operating expenses on page 114.

D4. OTHER CURRENT RECEIVABLES

Other current receivables			
SEKm	2017	2016	2015
VAT receivables	891	707	667
Prepaid expenses and accrued income	496	485	413
Suppliers with debit balance	256	155	228
Receivables for electricity and gas	116	103	79
Receivables from authorities	85	103	107
Derivatives	208	314	70
Receivables from associates	-	-	-
Other receivables	497	466	536
BS Total	2,549	2,333	2,100

D5. OTHER LIABILITIES

Other liabilities			
SEKm	2017	2016	2015
Other non-current liabilities			
Derivatives	5	2	108
Other non-current liabilities	74	70	38
BS Total	79	72	146
Of which items that fall due for payment later than within five years			
	17	28	16
Other current liabilities			
Derivatives	42	76	379
TD5:1 Accrued expenses and prepaid income	9,575	8,843	7,950
Other operating liabilities	2,952	2,685	2,416
BS Total	12,569	11,604	10,745

TD5:1 Accrued expenses and prepaid income

SEKm	2017	2016	2015
Accrued social security costs	371	375	360
Accrued vacation pay liability	621	625	529
Other liabilities to personnel	1,150	1,039	935
Bonus and discounts to customers	4,401	4,039	3,760
Other items	3,032	2,765	2,366
Total	9,575	8,843	7,950

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 experts.

Other provisions 2017

SEKm	Efficiency programs	Tax risks	Environment	Legal disputes	Other	Total
Value, January 1	882	520	71	1,009	334	2,816
Provisions	198	241	64	64	391	958
Company acquisitions	108	69	-	-	14	191
Utilization	-497	-	-72	-10	-40	-619
Reclassifications	-1	61	-	18	-1	77
Dissolutions	-137	-1	-	-275	-3	-416
Translation differences	2	-	3	14	2	21
Value, December 31	555	890	66	820	697	3,028

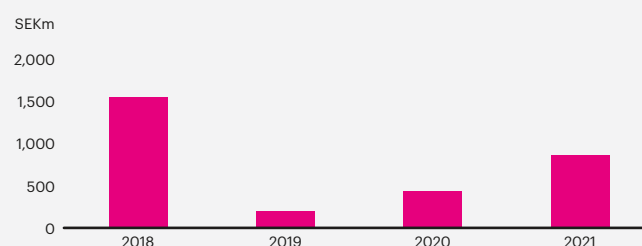
Provisions comprise:

BS Short-term component	1,547
BS Long-term component	1,481

In 2016, provisions for the period amounted to SEK 2,165m, utilization to SEK -1,110m, reclassifications to SEK 15m and dissolutions and translation differences to SEK -29m.

In 2015, provisions for the period amounted to SEK 852m, utilization to SEK -571m, reclassifications to SEK 109m and dissolutions and translation differences to SEK -111m.

Distribution of other provisions by maturity



Provisions for the period for "Efficiency programs" are mainly attributable to the closure of a tissue production facility in the US, the closure of a tissue machine in the UK and the restructuring program related to the acquisition of BSN medical. Provisions for the period for "Tax risks" relate mainly to uncertainty concerning the restructuring programs implemented. Of the provisions for the period for "Environment," SEK 64m pertains to a liability for carbon dioxide emissions, which will be paid out in 2018. Provisions for the period for "Legal disputes" are mainly related to increased provisions for disputes in Chile and France. Provisions for the period for "Other" are primarily associated with foreign tax of a non-recurring nature on non-current assets outside Sweden arising from the split of SCA into two listed companies.

Dissolutions for the period for "Efficiency programs" are mainly attributable to the restructuring programs in France and India. Dissolutions for the period for "Legal disputes" relate primarily to the competition case in Poland.

The provisions at the end of the period attributable to "Efficiency programs" relate primarily to the restructuring programs in France and India, and the restructuring program related to the acquisition of BSN medical. Provisions for "Tax risks" relate primarily to a tax dispute in Denmark and uncertainty surrounding implemented restructuring programs. Provisions for "Environment" pertain mainly to a liability for carbon dioxide emissions. "Legal disputes" mainly consists of reserves relating to competition cases, primarily attributable to Chile, Hungary and Spain, and recycling fees/taxes for packaging in France. Other provisions mainly comprise reserves in connection with foreign tax of a non-recurring nature on non-current assets outside Sweden.

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. Available-for-sale 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. Impairment of financial assets takes place when there is objective proof of impairment, such as cessation of an active market or where it is probable that the debtors cannot meet their commitments.

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).

For disclosures in a note relating to non-current loans, current market interest rates are taken into account in fair value calculations. 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

On the acquisition date, Essity classifies financial instruments into 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 the year.

Held-to-maturity investments

Held-to-maturity investments are defined as financial assets that have determinable payments and that Essity intends to hold to maturity. 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 the year.

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 129.

E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL, CONT.**Financial instruments by category and measurement level**

SEKm	Note	Measure- ment level	2017	2016	2015
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	13	52	41
Derivatives – Other non-current assets		2	–	48	2
Derivatives – Current financial assets	E2	2	771	169	465
Derivatives – Other current receivables	D4	2	33	171	70
Total			817	440	578
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	16,292	16,021	10,967
Current financial liabilities	E4	2	–	425	5,634
Derivatives – Non-current financial liabilities	E4	2	21	19	–
Derivatives – Current financial liabilities	E4	2	396	502	467
Derivatives – Other non-current liabilities	D5	2	–	–	51
Derivatives – Other current liabilities	D5	2	18	55	127
Total			16,727	17,022	17,246
Loan and trade receivables					
Non-current financial assets	E2	–	27	24	233
Current financial assets	E2	–	274	61	43
Trade receivables	E3	–	17,607	15,843	14,808
Cash and cash equivalents	E2	–	4,107	4,244	4,828
Total			22,015	20,172	19,912
Available-for-sale financial assets					
Non-current financial assets	E2	1	87	82	75
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	31,312	15,256	10,381
Current financial liabilities	E4	–	6,689	4,059	6,280
Trade payables	–	–	14,748	12,972	11,869
Total			52,749	32,287	28,530
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	425	556	379
Other non-current assets	–	2	78	106	–
Other current receivables	D4	2	175	143	–
Current financial assets	E2	2	60	14	268
Total			738	819	647
Non-current financial liabilities	E4	2	12	3	115
Other non-current liabilities	D5	2	5	2	57
Current financial liabilities	E4	2	116	103	21
Other current liabilities	D5	2	24	21	252
Total			157	129	445

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, for which the fair value is disclosed in Note E4 Financial liabilities on page 128.

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

Financial instruments in other notes to the balance sheet							
SEKm	Note	2017		2016		2015	
		Financial instruments	Of which derivatives	Financial instruments	Of which derivatives	Financial instruments	Of which derivatives
Assets							
Financial assets, cash and cash equivalents	E2	5,764	1,269	5,202	791	6,332	1,153
Other non-current assets		78	78	154	154	2	2
Trade receivables	E3	17,607	–	15,843	–	14,808	–
Other current receivables	D4	208	208	314	314	70	70
Total		23,657	1,555	21,513	1,259	21,212	1,225
Liabilities							
Financial liabilities	E4	54,838	545	36,388	627	33,865	603
Other non-current liabilities	D5	5	5	2	2	108	108
Trade payables		14,748	–	12,972	–	11,869	–
Other current liabilities	D5	42	42	76	76	379	379
Total		69,633	592	49,438	705	46,221	1,090

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.

Available-for-sale financial assets are measured at fair value. Changes in value are recognized in equity under other comprehensive income, while exchange gains and losses are recognized in profit or loss.

Financial assets, cash and cash equivalents

SEKm	Carrying amount		
	2017	2016	2015
Non-current financial assets			
TE2:1 Available-for-sale financial assets	87	82	75
Derivatives	438	608	420
Loan receivables, associates	–	–	207
Loan receivables, other	27	24	26
BS Total	552	714	728
Current financial assets			
Financial assets	19	19	–
Derivatives	831	183	733
Accrued financial income	–	–	1
Loan receivables, other	255	42	42
BS Total	1,105	244	776
Cash and cash equivalents			
Cash and bank balances	3,365	2,888	2,340
Current investments < 3 months	742	1,356	2,488
BS Total	4,107	4,244	4,828
Total financial assets, cash and cash equivalents	5,764	5,202	6,332

Cash and cash equivalents at December 31, 2017 include SEK 1,974m (1,672; 1,088) 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.

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

TE2:1 Available-for-sale financial assets			
SEKm	2017	2016	2015
Value, January 1	82	75	1,807
Investments	2	4	-
Divestment of securities	-	-	-2,046
Remeasurement taken to equity, net	1	-1	318
Translation differences	2	4	-4
Value, December 31	87	82	75
Available-for-sale financial assets			
SEKm	2017	2016	2015
Pension assets not included in IAS 19 calculation	87	82	75
Total	87	82	75

Shares in pension assets attributable to certain pension obligations are classified as available-for-sale financial assets. These assets are not included in the normal pension calculations, as set out in Note C5 Remuneration after termination of employment on page 119.

E3. TRADE RECEIVABLES

AP ACCOUNTING PRINCIPLES

Trade receivables are recognized at amortized cost after a provision is made for doubtful receivables. The provision for doubtful receivables is based on an individual assessment of each customer. Any impairment of trade receivables affects Essity's operating profit in the form of a selling expense. Essity's trade receivables are generally current and are not discounted.

Trade receivables			
SEKm	2017	2016	2015
Trade receivables, gross	17,864	16,116	15,017
Provision to reserves for doubtful receivables	-257	-273	-209
BS TE3:1 Total	17,607	15,843	14,808

TE3:1 Analysis of credit risk exposure in trade receivables			
SEKm	2017	2016	2015
Trade receivables neither overdue nor impaired	15,529	14,175	13,432
Trade receivables overdue but not impaired			
< 30 days	1,389	1,161	897
30-90 days	425	276	245
> 90 days	264	231	234
Trade receivables overdue but not impaired	2,078	1,668	1,376
Total	17,607	15,843	14,808

Essity's customer structure is dispersed, with customers in many different areas of business. In 2017, Essity's ten largest customers accounted for 22.9% (26.6; 26.4) of Essity's sales. The single largest customer accounted for 3.6% (4.0) of sales. More information is available in the Risks and risk management section on page 71.

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 1,329m (867; 1,593). Of this amount, SEK 203m (59; 767) relates to the category Trade receivables overdue but not impaired.

Provision to reserves for doubtful receivables			
SEKm	2017	2016	2015
Value, January 1	-273	-209	-192
Provision for possible loan losses	-61	-95	-67
Confirmed losses	12	21	38
Increase due to acquisitions	-53	-	-
Decrease due to reversal of provisions for possible loan losses	116	15	4
Translation differences	2	-5	8
Value, December 31	-257	-273	-209

The expense for the period for doubtful receivables amounted to SEK -55m (-80; -63).

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. Transaction costs are recognized on a straight-line basis over the term of the loan.

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 derivative are discounted to the same market interest rate as the loan and the changes in value are recognized in profit or loss.

Financial liabilities			
SEKm	2017	2016	2015
Current financial liabilities			
Amortization within one year	269	256	471
Bond issues	2,946	-	7,445
Derivatives	512	604	480
Loans with maturities of less than one year	3,305	4,132	3,900
Accrued financial expenses	169	97	106
BS Total¹⁾	7,201	5,089	12,402
Non-current financial liabilities			
Bond issues	35,687	18,708	14,725
Derivatives	33	23	123
Other long-term loans with maturities > 1 year < 5 years	9,876	8,078	3,150
Other long-term loans with maturities > 5 years	2,041	4,490	3,465
BS Total	47,637	31,299	21,463
Total financial liabilities	54,838	36,388	33,865
Fair value of financial liabilities	54,227	36,719	33,814

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

E4. FINANCIAL LIABILITIES, CONT.

Borrowing

Essity has a Euro Medium Term Note (EMTN) program with a program amount of EUR 6,000m (SEK 59,038) for issuing bonds in the European capital market. As of December 31, 2017, a nominal EUR 4,188m (2,217; 2,441) was outstanding with a remaining maturity of 4.7 years (4.8; 4.1).

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm
Notes EUR 300m	2018	2,946	2,946
Notes SEK 600m	2019	614	604
Notes SEK 900m	2019	899	910
Green bond SEK 1,500m	2019	1,499	1,521
Notes EUR 300m	2020	2,981	2,970
Notes EUR 500m	2021	4,885	4,895
Notes EUR 600m	2022	5,866	5,872
Notes EUR 500m	2023	5,216	5,265
Notes EUR 600m	2024	5,872	5,868
Notes EUR 300m	2025	2,974	2,888
Notes EUR 500m	2027	4,881	4,877
Total		38,633	38,616

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

Commercial paper program¹⁾

Program size	Issued SEKm
Commercial paper SEK 15,000m	–
Commercial paper EUR 800m	–
Total	–

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

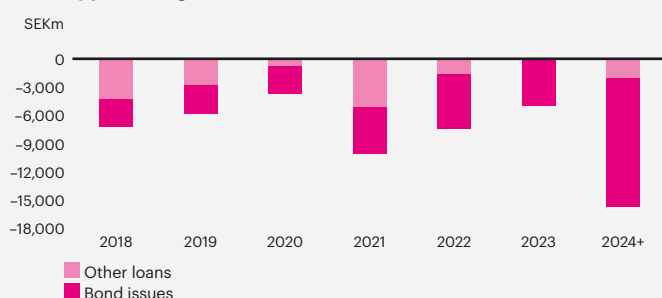
Essity has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. Contracted bilateral credit facilities with banks are used to supplement these syndicated bank facilities.

Credit facilities

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 1,000m	2019 ¹⁾	9,840	–	9,840
	EUR 1,000m	2021	9,840	–	9,840
Total			19,680	–	19,680

¹⁾ In January 2018, the syndicated credit facility maturing in 2019 was refinanced. The new credit facility, maturing in 2023, has the same nominal amount.

Maturity profile of gross debt¹⁾



¹⁾ Gross debt includes accrued interest in the amount of SEK 169m.

After additions for net pension provisions and deductions for cash and cash equivalents, interest-bearing receivables and capital investment shares, the net debt was SEK 52,467m (35,173; 19,058). For a description of the methods used by the Essity Group to manage its refinancing risk, refer to the Risks and risk management section on page 71.

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 71.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
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
2015				
Loans including interest	12,151	5,780	6,696	10,284
Net settled derivatives	-18	-48	-28	-69
Energy derivatives	357	96	–	–
Trade payables	11,796	74	–	–
Total	24,286	5,902	6,668	10,215
Gross settled derivatives ¹⁾	41,262	1,025	–	293

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 hedge 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 hedging 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 case the forecasted 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.

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

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 the cash-flows of the interest rate derivative are discounted at the same interest rate.

Economic hedges

When Essity conducts hedges and the transactions do not meet requirements for hedge accounting according to IAS 39, changes in fair value of the hedging instrument are recognized directly in profit or loss.

Outstanding derivatives

Outstanding derivatives		Of which		
SEKm	Total	Currency ¹⁾	Interest rate	Energy
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
2015				
Nominal	84,713	64,639	18,133	1,941
Asset	1,225	660	538	27
Liability	1,090	516	121	453

¹⁾ Nominal SEK 100,661m (110,115; 135,448) is outstanding before the right of set-off.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
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
December 31, 2015		
Gross amount	2,236	2,101
Offsettable amount	-1,011	-1,011
Net amount recognized in the balance sheet	1,225	1,090
ISDA agreements whose transactions are not offset in the balance sheet	-472	-472
Net after offsetting in accordance with ISDA agreements	753	618

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 66. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2017. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category on page 126.

Income statement

Hedges pertaining to transaction exposure had an impact of SEK -106m (64; 46) on operating profit for the period. At year-end, the net market value amounted to SEK -9m (45; 28). Currency hedges increased the cost of non-current assets by SEK 10m (reduced: 5; reduced: 1). At year-end, the net market value amounted to SEK 20m (24; -17). Energy derivatives had an impact of SEK 90m (-239; -241) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 225m (317; -426) at year-end. Derivatives impacted net interest items to the amount of SEK -289m (-68; 16). The net market value of outstanding interest rate derivatives amounted to SEK 413m (550; 417) at year-end. For further information relating to net financial items, see Note E7 Financial income and expenses on page 131.

Sensitivity analysis

Essity has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2017 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 54m (4; 6).

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 (1; 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 increased/decreased energy costs for the period by SEK 214m (203; 146). In addition to the earnings impact, equity would have increased/decreased by SEK 120m (107; 57). 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.

Outstanding derivatives with hedge accounting¹⁾

SEKm	Asset	Liability	Net	Tax	Hedge reserve after tax
2017					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	216	-14	202	-50	152
Currency risk	33	-15	18	-4	14
Total	249	-29	220	-54	166
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk ²⁾	60	-230	-170		
Fair value hedges					
Interest rate risk	425	-12	413		
Total	734	-271	463	-54	166
2016					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	241	-18	223	-59	164
Currency risk	6	-6	-	-	-
Total	247	-24	223	-59	164
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk ²⁾	704	-537	167		
Fair value hedges					
Interest rate risk	561	-8	553		
Total	1,512	-569	943	-59	164

¹⁾ Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives

²⁾ Derivatives before offsetting

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Outstanding derivatives with hedge accounting ¹⁾					
SEKm	Asset	Liability	Net	Tax	Hedge reserve after tax
2015					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	-	-302	-302	82	-220
Currency risk	-	-2	-2	-7	-9
Total	-	-304	-304	75	-229
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk ²⁾	860	-259	601		
Fair value hedges					
Interest rate risk	538	-115	423		
Total	1,398	-678	720	75	-229

¹⁾ Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives

²⁾ Derivatives before offsetting

The results from hedging of net investments in foreign operations are recognized in the translation reserve, refer to Note E8 Shareholders' equity on page 132. The results from fair value hedges are recognized directly in profit or loss.

Hedge reserve in equity

Currency derivatives relating to hedging of transaction exposure mature mainly during the first quarter of 2018. With unchanged exchange rates, profit after tax will be affected negatively to the amount of SEK 1m (pos. 2; 0). Currency derivatives relating to hedging of the cost of non-current assets have a maturity spread until November 2019. With unchanged exchange rates, the cost of non-current assets will decrease by SEK 15m (increase: 2; increase: 9) after tax.

The derivatives intended to hedge energy costs in the Group mature during 2018 and 2019. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 152m (neg: 164; neg: 220).

Hedging of net investments

Essity has hedged net investments in a number of selected legal entities in order to achieve the desired 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 in 2017 by a total of SEK -1,968m (-437; 58). This result is largely due to hedges of net investments in USD. The total market value of outstanding hedging transactions at the end of the period was SEK 170m (167; 601). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK -15,384m. Essity's total foreign net investments at year-end amounted to SEK 65,389m.

E7. FINANCIAL INCOME AND EXPENSES

Financial income and expenses			
SEKm	2017	2016	2015
Results from shares and participations in other companies			
Dividend	2	2	80
Interest income and similar profit items			
Interest income, investments	156	186	180
Other financial income	-	14	52
Total financial income	158	202	312
Interest expenses and similar loss items			
Interest expenses, borrowing	-882	-843	-1,067
Interest expenses, derivatives	-321	-92	7
Fair value hedges, unrealized	32	24	9
Other financial expenses	-169	-126	-89
Total financial expenses	-1,340	-1,037	-1,140
Total	-1,182	-835	-828

Other financial income and expenses include an exchange difference of SEK -70m (14; 52).

Sensitivity analysis

If interest rate levels had been 1 percentage point higher/lower, with unchanged fixed-interest terms and volumes in the net debt, interest expenses for the period would have been SEK 83m (103; 43) higher/lower. Sensitivity analysis calculations have been performed on the risk to which Essity was exposed at December 31, 2017 using assumptions on market movements that are regarded as reasonably possible in one year's time.

For a description of the methods used by Essity to manage its interest rate risk, refer to the Risks and risk management section on page 71.

E8. EQUITY

AP ACCOUNTING PRINCIPLES

Transaction costs directly relating to the issue of new shares or options are recognized, net after tax, in equity as a reduction in the issue proceeds. Expenditure for the purchase of own shares reduces retained earnings in equity in the Parent Company and the portion of consolidated equity that pertains to owners of the Parent. When these are sold, the sales proceeds are included in retained earnings in the equity pertaining to owners of the Parent.

Furthermore, transactions considered to be transfers between companies that are jointly controlled are recognized as separate transactions with shareholders as shown below.

Equity totalled SEK 49,570m (39,580; 48,275) at December 31, 2017. The following tables show the distribution and profit for the period.

SEKm	Share capital	Reserves ¹⁾	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 cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans ²⁾			1,065	1,065	-4	1,061
Income tax attributable to components in other comprehensive income			-218	-218	-	-218
			847	847	-4	843
Items that have been or can be transferred to profit for the period						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity				-		-
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
Result from hedging of net investments in foreign operations		-1,968		-1,968		-1,968
Other comprehensive income from associates			-22	-22		-22
Tax on items recognized directly in/transferred from equity ³⁾		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

¹⁾ Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Reserves line in the balance sheet, refer to page 134.

²⁾ Including payroll tax.

³⁾ For a specification of income tax attributable to components in other comprehensive income, refer to page 134.

E8. EQUITY, CONT.

SEKm	Share capital	Reserves ¹⁾	Retained earnings	Equity attributable to Essity's shareholders	Non-controlling interests	Total equity
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 cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans ²⁾			-1,570	-1,570	1	-1,569
Income tax attributable to components in other comprehensive income			421	421	-	421
			-1,149	-1,149	1	-1,148
Items that have been or can be transferred to profit for the period						
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
Result from hedging of net investments in foreign operations		-437		-437		-437
Other comprehensive income from associates			12	12		12
Tax on items recognized directly in/transferred from equity ³⁾		-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
Value, January 1, 2015	0	4,015	35,660	39,675	5,250	44,925
IS Profit for the period recognized in profit or loss			6,129	6,129	449	6,578
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans ²⁾			1,933	1,933		1,933
Income tax attributable to components in other comprehensive income			-418	-418		-418
			1,515	1,515	-	1,515
Items that have been or can be transferred to profit for the period						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity		318		318		318
Transferred to profit or loss upon sale		-970		-970		-970
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		-450		-450		-450
Transferred to profit or loss for the period		342		342		342
Translation differences in foreign operations		-1,729		-1,729	-215	-1,944
Result from hedging of net investments in foreign operations		-58		-58		-58
Other comprehensive income from associates			-17	-17		-17
Tax on items recognized directly in/transferred from equity ³⁾		33		33		33
Other comprehensive income for the period, net of tax		-2,514	1,498	-1,016	-215	-1,231
Comprehensive income for the period		-2,514	7,627	5,113	234	5,347
Acquisition of non-controlling interests			-40	-40	21	-19
Transactions with shareholders			-1,762	-1,762		-1,762
Dividend to non-controlling interests				-	-216	-216
BS Value, December 31	0	1,501	41,485	42,986	5,289	48,275

¹⁾ Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Reserves line in the balance sheet, refer to page 134.

²⁾ Including payroll tax.

³⁾ For a specification of income tax attributable to components in other comprehensive income, refer to page 134.

E8. EQUITY, CONT.

Equity, specification of reserves

SEKm	Revaluation reserve ¹⁾			Hedge reserve ²⁾			Available-for-sale assets			Translation reserve		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Value, January 1	107	107	107	164	-229	-145	6	7	659	3,784	1,616	3,394
Available-for-sale financial assets:												
Result from measurement at fair value recognized in equity								-1	318			
Transferred to profit or loss upon sale									-970			
Cash flow hedges:												
Result from remeasurement of derivatives recognized in equity				35	275	-450						
Transferred to profit or loss for the period				-56	274	342						
Transferred to cost of hedged investments				10	-19	-						
Acquired cash flow hedges				4								
Translation differences in foreign operations ³⁾				2	-1	5				626	2,509	-1,734
Result from hedging of net investments in foreign operations										-1,968	-437	-58
Tax on items recognized directly in/transferred from equity				7	-136	19				433	96	14
Other comprehensive income/loss for the period, net of tax				2	393	-84		-1	-652	-909	2,168	-1,778
Value, December 31	107	107	107	166	164	-229	6	6	7	2,875	3,784	1,616

¹⁾ Revaluation reserve includes effect on equity of step acquisitions.

²⁾ See also Note E6 Derivatives and hedge accounting on page 129 for details of when profit or loss is expected to be recognized.

³⁾ Transfer to profit or loss of realized exchange gains relating to divested companies is included in the amount of SEK -19m (-13; -).

Specification of income tax attributable to other comprehensive income for the period

SEKm	2017			2016			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Actuarial gains and losses relating to defined benefit pension plans	1,061	-218	843	-1,569	421	-1,148	1,933	-418	1,515
Available-for-sale financial assets	-	-	-	-1	-	-1	-652	-	-652
Cash flow hedges	-11	7	-4	530	-136	394	-108	19	-89
Translation differences in foreign operations	320	-	320	2,742	-	2,742	-1,944	-	-1,944
Other comprehensive income/loss from associates	-22	-1	-23	12	-1	11	-17	-	-17
Result from hedging of net investments in foreign operations	-1,968	433	-1,535	-437	96	-341	-58	14	-44
Other comprehensive income/loss for the period	-620	221	-399	1,277	380	1,657	-846	-385	-1,231

At December 31, 2017, the debt/equity ratio amounted to 1.06 (0.89; 0.39). Changes in liabilities and equity are described in the Financial position section on page 65. 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 66. The Essity share section on page 38 outlines Essity's dividend policy, while its capital structure is described in the Targets and outcomes section on page 30.

Transactions with shareholders

Specification of transactions with shareholders

SEKm	2017	2016	2015
Dividend/Group contribution	-255	-4,637	-3,443
Contributions received	903	1,271	1,375
Tax effect	194	599	306
Transfer of net assets till SCA's forest products business ¹⁾	-	-11,912	-
Total	842	-14,679	-1,762

¹⁾ For further information, see Note G4 Transactions with related parties on page 142.

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 and 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, 49% of Sancella 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. The acquisition of BSN medical, refer to Note F6 Acquisitions and divestments on page 139, included a minor subsidiary in Venezuela that was divested in December 2017. Because there was no possibility to exercise control, the company was not consolidated during the holding period.

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, 2017. 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 2017. The process of renaming the companies from SCA to Essity will continue in 2018.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2017	Share of equity at December 31, 2016	Share of equity at December 31, 2015
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	55	51
Essity Operations Wausau LLC	41-2218501	Wisconsin, USA	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
SCA Hygiene Products Russia OOO	4704 031 845	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	CHE-106.977.885	Schenkon, Switzerland	100	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
Sancella S.A.	B14441997	La Chargaia, Tunisia	49	49	49
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 Horka, Slovakia	100	100	100
Essity Operations Mainz-Kostheim GmbH	HRB 5301	Mainz-Kostheim, Germany	100	100	100
Essity Operations France SAS	702 055 187	Bois-Colombes, 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	Roissy, Bobigny, France	100	100	100
Essity Operations Manchester Ltd	4119442	Dunstable, UK	100	100	100
BSN medical GmbH	HRB 124 187	Hamburg, Germany	100	-	-
BSN Radiante SAS	652 880 519	Le Mans, France	100	-	-
BSN Medical Distribution Limited	04381725	Willerby, UK	100	-	-
SCA do Brasil Indústria e Comércio Ltda	72.899.016/0001-99	Osasco, Brazil	100	100	100
BSN Medical Inc.	3269728	Delaware, USA	100	-	-

¹⁾ Essity has a small number of subsidiaries that are partly owned and hold significant non-controlling interests, see **TF2:1** on page 136.

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 19,705 (19,329; 16,533) 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.

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

SEKm	Vinda ¹⁾			Familia ¹⁾		
	2017	2016	2015	2017	2016	2015
Condensed income statement						
Net sales	14,728	13,297	10,463	6,283	6,075	6,186
Operating profit before depreciation/amortization of acquisition-related assets	1,074	1,038	736	882	733	783
Operating profit	1,067	1,038	736	882	733	783
Profit for the period	670	685	302	649	236	607
Of which attributable to owners of the Parent	348	374	155	316	115	311
Other comprehensive income for the period	163	-94	194	-411	486	-684
Of which attributable to owners of the Parent	85	-51	119	-233	270	-412
Comprehensive income/loss for the period	833	591	496	238	722	-77
Of which attributable to owners of the Parent	433	323	274	83	385	-101
Of which attributable to non-controlling interests	400	268	222	155	337	24
Dividend to non-controlling interests	107	55	88	122	87	92
Condensed balance sheet						
Non-current assets	18,324	17,327	13,587	3,151	3,250	2,917
Current assets	6,209	5,669	4,623	3,116	2,825	2,494
Total	24,533	22,996	18,210	6,267	6,075	5,411
Equity attributable to owners of the Parent	7,871	7,573	5,895	2,585	2,398	2,089
Equity attributable to non-controlling interests	5,348	4,503	3,570	1,791	1,764	1,510
Non-current liabilities	5,730	5,394	4,543	394	475	486
Current liabilities	5,584	5,526	4,202	1,497	1,438	1,326
Total	24,533	22,996	18,210	6,267	6,075	5,411
Cash flow from operating activities	1,080	2,439	810	969	569	440
Cash flow from investing activities	-1,401	-1,129	-1,322	-203	-60	-135
Cash flow from financing activities	-329	-583	171	-435	-349	-249
Cash flow for the period	-650	727	-341	331	160	56

¹⁾ For more information about the companies, refer to the list of major subsidiaries on page 135.

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 138.

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 based on 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	2017	2016	2015
Joint ventures			
Value, January 1	130	114	122
Net increase in joint ventures ¹⁾	9	10	4
Reclassification between joint ventures and associates	-	-	-8
Translation differences	5	6	-4
Value, December 31	144	130	114
Associates			
Value, January 1	966	927	925
Investments	-	-	66
Company acquisitions	3	-	-
Company divestments	-	-40	-
Net increase in associates ¹⁾	-28	11	40
Impairment of associates	-	-	-62
Reclassification between associates and subsidiaries	-8	-	-
Reclassification between joint ventures and associates	-	-	8
Translation differences	-15	68	-50
Value, December 31	918	966	927
BS TF3:1 Value, December 31, joint ventures and associates	1,062	1,096	1,041

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 5m (2; 11) for joint ventures and SEK 171m (147; 125) for associates.

Joint ventures and associates

Asaleo Care Ltd

As of 2014, Asaleo Care Ltd in Australia is recognized as an associate in accordance with the equity method, following the flotation of the company on the Australian Securities Exchange (ASX). In connection with the flotation, Essity's participation decreased to 32.5% from the previous figure of 50%. In 2015, the company implemented a program to repurchase shares from the market, in which Essity did not participate. This caused Essity's participation in Asaleo Care to increase to 34.7% during the fourth quarter of 2015. This program continued in 2016, resulting in Essity's share in the company increasing to 35.9%. 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.

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

SEKm	Joint ventures			Associates			Total		
	Bunzl & Biach			Asaleo Care Ltd			2017	2016	2015
Condensed income statement									
Net sales	1,123	955	852	3,829	3,851	3,946	4,952	4,806	4,798
Depreciation/amortization	-11	-11	-11	-188	-185	-169	-199	-196	-180
Operating profit	28	22	31	604	597	736	632	619	767
Interest income	-	-	-	-	2	3	-	2	3
Interest expenses	-	-	-	-76	-67	-64	-76	-67	-64
Other financial items	1	1	3	-	-2	-3	1	-1	-
Tax expense	-7	-	-8	-154	-155	-193	-161	-155	-201
Profit for the period	22	23	26	374	375	479	396	398	505
Other comprehensive income/loss for the period	-	-	-1	-61	31	-49	-61	31	-50
Comprehensive income for the period	22	23	25	313	406	430	335	429	455
Condensed balance sheet									
Non-current assets	120	118	106	3,402	3,600	3,343	3,522	3,718	3,449
Cash and cash equivalents	19	15	10	194	199	214	213	214	224
Other current assets	174	120	93	1,250	1,269	1,159	1,424	1,389	1,252
Total assets	313	253	209	4,846	5,068	4,716	5,159	5,321	4,925
Non-current financial liabilities	92	60	50	1,975	2,121	1,792	2,067	2,181	1,842
Other non-current liabilities	47	46	47	257	252	181	304	298	228
Current financial liabilities	-	-	-	8	28	24	8	28	24
Other current liabilities	30	25	16	703	652	668	733	677	684
Total liabilities	169	131	113	2,943	3,053	2,665	3,112	3,184	2,778
Net assets	144	122	96	1,903	2,015	2,051	2,047	2,137	2,147
Group share of net assets	71	60	47	688	725	711	759	785	758
Fair value adjustment	62	58	56	182	178	119	244	236	175
Carrying amount of the companies	133	118	103	870	903	830	1,003	1,021	933
Carrying amount of other joint ventures	11	12	11	-	-	-	11	12	11
Carrying amount of other associates	-	-	-	48	63	97	48	63	97
BS TF3:2 Carrying amount of joint ventures and associates	144	130	114	918	966	927	1,062	1,096	1,041
Market value, December 31				5,232	5,296	5,495			

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, 2017 %	Share of equity at December 31, 2016 %	Share of equity at December 31, 2015 %	Carrying amount December 31, 2017 SEKm	Carrying amount December 31, 2016 SEKm	Carrying amount December 31, 2015 SEKm
Joint ventures								
Bunzl & Biach GmbH	FN79555v	Vienna, Austria	49	49	49	133	118	103
Other						11	12	11
Associates								
Asaleo Care Ltd	61154 461300	Melbourne, Australia	36	36	35	870	903	830
Other						48	63	97
BS TF3:1 Carrying amount, December 31						1,062	1,096	1,041

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, 2017	Share of equity at December 31, 2016	Share of equity at December 31, 2015
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)	2131790-4	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, Venio 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	2017	2016	2015
Value, January 1	32	33	40
Increase through acquisitions	3	-	-
Divestments	-3	-1	-7
BS Value, December 31	32	32	33

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 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 was SEK 1,394m, and takeover of net debt amounted 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 associated company 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 in 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 estimated 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.

Acquired operations

The table on next page 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.

Acquisitions in 2016

On October 13, 2015, a public bid for Wausau Paper Corp., one of the largest Professional Hygiene companies in the North American market, was announced. The transaction was approved by US authorities on November 17, 2015, and Wausau Paper's shareholders accepted the bid at the general meeting held on January 20, 2016. The transaction was completed on January 21, 2016, with all shares in the company being acquired. Essity has consolidated Wausau as of this date. The consideration transferred amounted to USD 513m (SEK 4,401m) in cash. Goodwill is motivated by synergies between Essity and Wausau Paper, including the capacity 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. The restructuring costs are expected to amount to approximately USD 50m. The cost for the acquisition amounted to SEK 90m.

A minor acquisition of Sensassure in Canada was completed during the year. The consideration transferred amounted to SEK 47m, of which SEK 19m relates to an earn-out payment that is contingent upon certain performance measures being met. In 2017, SEK 7m was paid in relation to Sensassure.

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. Sensassure is a development company and has initially only yielded costs of about SEK 2m.

F6. ACQUISITIONS AND DISPOSALS, CONT.

Acquisitions in 2015

Apart from the acquisition of Nampak, which is described in more detail below, Essity made only minor supplementary investments in 2015 and made earn-out payments for previously acquired companies. In July, Essity signed an agreement to acquire the remaining 50% of the jointly owned South African subsidiary Sancella S.A. Nampak. The purchase consideration amounted to SEK 1. Essity had already recognized Sancella S.A. as a subsidiary, which is why the acquisition will be recognized as an equity transaction.

The acquisitions conducted during the period, which amounted to SEK 74m, were paid in cash. The earn-out payment for FZCO Sancella amounted to SEK 19m, of which SEK 11m was paid in cash and the remaining SEK 8m was recognized as a financial liability. Operating profit for the period includes acquisition costs of approximately SEK 1m.

Effect on sales and earnings in 2015 of acquisitions for the period

No new acquisitions were carried out during the period.

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. The acquisition balance sheets for 2017 are preliminary.

Acquisition balance sheets			
SEKm	2017	2016	2015
Intangible assets	13,472	213	-
Property, plant and equipment	1,351	2,896	-
Other non-current assets	333	-	66
Operating assets	3,286	672	-
Cash and cash equivalents	498	14	-
Provisions and other non-current liabilities	-4,278	-71	-
Net debt excl. cash and cash equivalents	-13,042	-2,124	-
Operating liabilities	-1,352	-528	-
Fair value of net assets	268	1,072	66
Goodwill	13,290	3,375	-
Consolidated value of share in associates	-8	-	-
Revaluation of previously owned shares in associates	-72	-	-
Non-controlling interests	-78	-	-
Consideration transferred	13,400	4,447	66
Consideration transferred	-13,400	-4,447	-66
Earn-out payment	-	19	11
Settled debt pertaining to acquisitions in earlier years	-108	-2	-6
Cash and cash equivalents in acquired companies	498	14	-
Settled financial debt pertaining to acquisitions in earlier years	-62	-	-
CF Effect on Group's cash and cash equivalents, acquisition of operations	-13,072	-4,416	-83
of which recognized as acquisitions of holdings in Investing activities	-13,070	-4,416	-72
of which recognized as acquisitions of non-controlling interests in Financing activities	-2	-	-11
Purchase consideration settled/entered as liability	7	-	-9
Acquired net debt excl. cash and cash equivalents	-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	-26,045	-6,540	-92

Specification of preliminary acquisition balance sheet 2017

SEKm	BSN medical	Other	Total
Intangible assets	13,472	-	13,472
Property, plant and equipment	1,350	1	1,351
Other non-current assets	329	4	333
Operating assets	3,161	125	3,286
Cash and cash equivalents	471	27	498
Provisions and other non-current liabilities	-4,278	-	-4,278
Net debt excl. cash and cash equivalents	-13,038	-4	-13,042
Operating liabilities	-1,272	-80	-1,352
Fair value of net assets	195	73	268
Goodwill	13,145	145	13,290
Consolidated value of share in associates	-	-8	-8
Revaluation of previously owned shares in associates	-	-72	-72
Non-controlling interests	-80	2	-78
Consideration transferred	13,260	140	13,400
Consideration transferred	-13,260	-140	-13,400
Settled debt pertaining to acquisitions in earlier years	-	-108	-108
Cash and cash equivalents in acquired companies	471	27	498
Settled financial debt pertaining to acquisitions in earlier years	-	-62	-62
CF Effect on Group's cash and cash equivalents, acquisition of operations	-12,789	-283	-13,072
of which recognized as acquisitions of holdings in Investing activities	-12,789	-281	-13,070
of which recognized as acquisitions of non-controlling interests in Financing activities	-	-2	-2
Purchase consideration settled/entered as liability	-	7	7
Acquired net debt excl. cash and cash equivalents	-13,038	-4	-13,042
Settled financial debt pertaining to acquisitions in earlier years	-	62	62
OCF Acquisition of operations during the period, including net debt assumed	-25,827	-218	-26,045

Adjustment of preliminary acquisition balance sheets for 2017

An acquisition analysis is considered preliminary until it is confirmed. A preliminary acquisition analysis 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 acquisition analysis for BSN medical of assets in the form of customers relationships, brands, technology and goodwill may be adjusted after Essity has finalized the valuation of BSN medical's brands. The acquisition analysis for Continental de Negocias S.A in the Dominican Republic is preliminary and may be adjusted. Acquisition analyses prepared in 2016 were confirmed in accordance with the preliminary acquisition analyses without any adjustments in 2017.

Divestments

In March, various non-current assets and operating assets were divested in connection with the closure of a tissue machine in the UK. The purchase consideration amounted to SEK 37m and the capital loss to SEK -6m. In addition to this divestment, payment was received for a number of minor divestments, with the total purchase consideration for these amounting to SEK 5m and the capital gain to SEK +4m. All capital gains were recognized in items affecting comparability in profit or loss.

Assets and liabilities included in divestments			
SEKm	2017	2016	2015
Property, plant and equipment	31	-10	48
Other non-current assets	-	43	-
Operating assets	16	3	68
Non-current assets held for sale	-	124	-
Cash and cash equivalents	1	8	-
Operating liabilities	-4	-15	-
Gain/loss on sale ¹⁾	-2	165	-
Compensation received	42	318	116
Less:			
Receivable for unpaid purchase consideration	-12	-	-67
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	29	369	49
Less:			
Divested net debt excl. cash and cash equivalents	-	-	-
OCF Divestment of operations during the period, including net debt transferred	29	369	49

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	2017	2016	2015
Buildings	9	59	53
Land	18	31	67
Machinery and equipment	15	66	–
BS Total	42	156	120

In 2017, non-current assets held for sale amounted to SEK 42m and were attributable to the discontinuation of an operation in India.

G2. LEASES**AP ACCOUNTING PRINCIPLES**

Lease agreements are classified and recognized as either operating or finance leases. In cases where a lease agreement 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 terms.

Leasing expenses

SEKm	2017	2016	2015
Operating leases	-776	-696	-681
Finance leases, depreciation/amortization	-2	-2	-5
Finance leases, interest expense	0	0	-2
Total	-778	-698	-688

Operating leases, future minimum lease payments

SEKm	2017	2016	2015
Within 1 year	572	515	485
Between 1 and 5 years	975	1,209	933
Later than 5 years	980	1,392	545
Total	2,527	3,116	1,963

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	2017	2016	2015
Within 1 year	1	1	6
Between 1 and 5 years	1	1	12
Later than 5 years	–	–	35
Total	2	2	53
Of which, interest	0	0	-18
Present value of future minimum lease payments	2	2	35

Other disclosures

Total payments for finance leases during the period amounted to SEK -2m (-31; -9), of which amortization of debt accounted for SEK -2m (-31; -7). The carrying amount of finance lease assets at year-end amounted to SEK 0m (0; 29) relating to buildings/land and SEK 5m (5; 3) relating to machinery. In 2016, a rental contract for a distribution center was terminated. In conjunction with this, the distribution center was acquired for SEK 29m.

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	2017	2016	2015
Guarantees for			
associates	5	8	9
customers and others	43	39	38
Tax disputes	–	–	1,302 ¹⁾
Other contingent liabilities ²⁾	294	214	243
Total	342	261	1,592

¹⁾ Contingent liabilities for tax in 2015 mainly relate to one tax dispute in Sweden where the Tax Agency had decided on additional taxes and tax surcharges for the years 2008 to 2012 of approximately SEK 1,188m, including interest. The dispute pertained to interest expenses on loans in a Group company that arose in connection with the move of operations to Sweden in 2004. A provision was made in 2016 and this obligation was subsequently settled.

²⁾ Other contingent liabilities above pertains 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					
SEKm	Pledged assets related to financial liabilities	Other	Total		
			2017	2016	2015
Real estate mortgages	65	–	65	7	7
Chattel mortgages	31	–	31	55	52
Other	64	186	250	130	134
Total	160	186	346	192	193

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

G4. TRANSACTIONS WITH RELATED PARTIES

Up until the split of SCA into two listed companies, 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 for all fiscal years. In relation to remuneration of senior executives, refer to Note C3 Remuneration of senior executives on page 117 and for disclosures regarding transactions with associates, joint ventures and joint operations in Notes F3 Joint ventures and associates on page 136 and F4 Joint operations on page 138.

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 SCA Hygiene 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 132. The acquisition by Essity Aktiebolag (publ) on December 30, 2016 of the companies and operations that constitute the Tissue and Personal Care operating segments as well as SCA's internal bank is the reason for the major change in internal financial receivables and transactions with shareholders in equity in 2016.

In conjunction with the transfer outlined above, Essity Aktiebolag (publ) assumed the majority of the external financing that existed in SCA. 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	2017	2016	2015
Sales	–	–	–
Purchases	214	511	482
Other income	–	56	57
Financial income	70	108	132
Financial expenses	–9	–2	–2
Non-current receivables, Group companies	–	–	39
Non-current financial receivables, Group companies	–	3	3
Current receivables, Group companies	–	57	166
Of which, trade receivables	–	18	79
Of which, currency derivatives	–	33	10
Of which, energy derivatives	–	6	77
Current financial receivables, Group companies	–	1,433	12,207
Non-current liabilities, Group companies	–	48	–
Of which, currency derivatives	–	12	–
Of which, energy derivatives	–	36	–
Current liabilities, Group companies	–	259	341
Of which, trade payables	–	100	106
Of which, currency derivatives	–	64	29
Of which, energy derivatives	–	58	3
Of which, other current liabilities	–	37	203
Current financial liabilities, Group companies	–	485	852

Financial statements, Parent Company

Income statement **IS**

SEKm	Note	2017	2016
Administrative expenses		-933	0
Other operating income		367	-
Operating profit/loss	PC1	-566	0
Financial items	PC9		
Result from participations in subsidiaries		2,737	-225
Interest income and similar profit items		491	16
Interest expenses and similar loss items		-981	-35
Total financial items		2,247	-244
Profit/loss after financial items		1,681	-244
Appropriations	PC3	-1	-
Tax on profit for the period	PC3	816	230
Profit/loss for the period		2,496	-14

Statement of comprehensive income

SEKm	2017	2016
Profit/loss for the period	2,496	-14
Other comprehensive income	-	-
Total comprehensive income/loss	2,496	-14

Cash flow statement **CF**

SEKm	2017	2016
Operating activities		
Profit/loss after financial items	1,681	-244
Adjustment for non-cash items T1	274	803
Paid tax	-4	-
Cash flow from operating activities before changes in working capital	1,951	559
Change in operating receivables	-47,654	-46
Change in operating liabilities ¹⁾	47,818	493
Cash flow from operating activities	2,115	1,006
Investing activities		
Acquisition of subsidiaries	-14	-167,601
Divestment of subsidiaries, gain from merger	5	-
Acquisition of fixed assets	0	-6
Cash flow from investing activities	-9	-167,607
Financing activities		
Loans raised	22,006	91,601
Amortization of debt	-24,710	-
Capital contribution received	598	75,000
Cash flow from financing activities	-2,106	166,601
Cash flow for the period	0	0
Cash and cash equivalents, January 1	0	0
Cash and cash equivalents, December 31 ²⁾	0	0

T1 Adjustment for non-cash items	2017	2016
Depreciation/amortization of fixed assets	2	-
Change in accrued items	255	-15
Impairment of shares in subsidiaries	5	-
Change in provisions	12	818
Total	274	803

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	2017	2016
Dividends received	4,245	-
Group contribution received	334	-
Group contribution paid ³⁾	-225	-
Interest paid	-433	-100
Interest received	164	119
Total	4,085	19

³⁾ The comparative figure for 2016 has been adjusted compared with the 2016 Annual Report for SCA Hygiene AB.

Change in liabilities attributable to financing activities

SEKm	Value, January 1	Cash flow	Translation difference	Value, December 31
Non-current interest-bearing liabilities	23,006	17,560	1,132	41,698
Current interest-bearing liabilities	-	4,446	-	4,446
Current liabilities to subsidiaries	68,205	-24,241	-	43,964
Current receivables from subsidiaries	-	-469	-	-469
Total	91,211	-2,704	1,132	89,639

Balance sheet **BS**

SEKm	Note	2017	2016
Assets			
Fixed assets			
Capitalized development costs		0	0
Intangible fixed assets	PC4	0	0
Machinery and equipment		5	7
Tangible fixed assets	PC5	5	7
Participations	PC6	167,614	167,601
Receivables from subsidiaries	PC7	435	-
Other non-current receivables		51	21
Deferred tax assets	PC3	1,046	230
Financial fixed assets		169,146	167,852
Total fixed assets		169,151	167,859
Current assets			
Receivables from subsidiaries	PC7	48,770	103
Current tax assets	PC3	4	-
Other current receivables	PC8	160	46
Total current assets		48,934	149
Total assets		218,085	168,008
Equity, provisions and liabilities			
Equity	PC11		
Share capital		2,350	0
Statutory reserve		0	0
Total restricted equity		2,350	0
Retained earnings		73,239	75,000
Profit/loss for the period		2,496	-14
Total non-restricted equity		75,735	74,986
Total equity		78,085	74,986
Untaxed reserves	PC3	1	-
Provisions			
Provisions for pensions	PC2	878	839
Other provisions		3	-
Total provisions		881	839
Non-current liabilities			
Liabilities to subsidiaries	PC7	12	-
Non-current interest-bearing liabilities	PC9	41,697	23,006
Total non-current liabilities		41,709	23,006
Current liabilities			
Liabilities to subsidiaries	PC7	92,461	68,891
Current interest-bearing liabilities	PC9	4,446	-
Accounts payables		30	4
Other current liabilities	PC10	472	282
Total current liabilities		97,409	69,177
Total equity, provisions and liabilities		218,085	168,008

Change in equity (Refer also to Note PC11)

SEKm	Share capital	Statutory reserve	Retained earnings and profit/loss for the period	Total equity
Equity at December 31, 2015	0	0	0	0
Loss for the period			- 14	- 14
New issue	0	-	-	0
Capital contribution received			75,000	75,000
Equity at December 31, 2016	0	0	74,986	74,986
Profit for the period			2,496	2,496
Bonus issue	2,350	-	- 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

PC. PARENT COMPANY NOTES

PC1. OPERATING PROFIT/LOSS

Operating loss by type of cost

SEKm	2017	2016
Other operating income	367	-
Other external costs	- 597	0
Personnel and Board costs	- 334	-
Amortization of capitalized development costs PC4	0	-
Depreciation of tangible fixed assets PC5	- 2	-
IS Total	- 566	0

The item "Other external costs" includes consultancy fees, travel expenses, leasing expenses, management costs, and so forth. The company was dormant for much of 2016.

AUDITING EXPENSES

Remuneration to auditors can be specified as follows:

SEKm	2017	2016
EY		
Audit assignments	- 12	-
Auditing activities other than the audit assignment	- 1	-
Tax consultancy services	-	-
Other assignments	-	-
Total	- 13	-

Auditing expenses in 2016 were charged to Svenska Cellulosa Aktiebolaget SCA.

Leasing

AP ACCOUNTING PRINCIPLES

The company recognizes all leases as operating leases.

Future payment commitments for non-cancellable operating leases are as follows:

SEKm	2017	2016
Within 1 year	24	24
Between 2 and 5 years	29	50
Later than 5 years	-	-
Total	53	74

Cost for the period for leasing of assets amounted to SEK -25m (-). Leased assets comprise means of transportation, office premises and technical equipment. On December 31, 2016, the company assumed all of Svenska Cellulosa Aktiebolaget SCA's outstanding leasing contracts.

PC2. PERSONNEL AND BOARD COSTS

Salaries and remuneration

SEKm	2017	2016
Board of Directors ¹⁾ , President, Executive Vice Presidents and senior executives (5 (6))	- 67	-
of which variable remuneration	- 28	-
Other employees	- 134	-
Total	- 201	-

¹⁾ Board fees decided by the Annual General Meeting amounted to SEK -9m (-). For further information, see Notes C1-C4. The majority of the employment contracts in Svenska Cellulosa Aktiebolaget SCA were transferred to the company on January 1, 2017.

Social security costs

SEKm	2017	2016
Total social security costs	- 124	-
of which pension costs ²⁾	- 61	-

²⁾ Of the Parent Company's pension costs, SEK -16m (-) 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 51m (-).

Pension costs

SEKm	2017	2016
Self-administered pension plans		
Costs excluding interest expense	- 49	-
Interest expense (recognized in personnel costs)	- 6	-
Sub-total	- 55	-
Retirement through insurance		
Insurance premiums	- 18	-
Other	32	-
Sub-total	- 41	-
Policyholder tax	0	-
Special payroll tax on pension costs	- 17	-
Cost of credit insurance, etc.	- 3	-
Pension costs for the period	- 61	-

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK -2m (-). Premiums for 2018 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 (-).

Average number of employees

	2017	2016
Sweden	116	-
of whom women, %	49	-

Breakdown of employees by age groups, %

2017	21-30 yrs	31-40 yrs	41-50 yrs	51-60 yrs	61- yrs
	4	23	37	27	9

Women comprised 46% (56) of Board members and 36% (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, 2017 amounted to SEK 151m (127). In the past two years, no compensation has been received. The capital value of the pension obligations at December 31, 2017 amounted to SEK 134m (125). Pension payments of SEK -6m (-) were made in 2017. In 2017, the assets exceeded pension obligations by SEK 17m (2). The amount in parentheses relates to the share of Svenska Cellulosa Aktiebolaget SCA's PRI pensions that were formerly transferred to Essity Aktiebolag in 2017.

Other pension obligations

The Group's Note C3 Remuneration of senior executives 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	2017	2016
Value, January 1	839	-
Compensation received for assumed pension obligations	21	839
Compensation paid for transferred pension obligations	-	-
Costs excluding interest expense	49	-
Interest expense (recognized in personnel costs)	6	-
Payment of pensions	-37	-
BS Value, December 31	878	839

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 0.7% (0.8). 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 to 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 42m. 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. 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	2017	2016
Deferred tax	- 816	-230
Current tax	-	-
IS Total	- 816	-230

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.

Reconciliation	2017		2016	
	SEKm	%	SEKm	%
IS Profit/loss before tax	1,680		- 244	
IS Tax expense/income	-816	-48.5	-230	-94.2
Expected tax	370	22.0	- 54	-22.0
Difference	-1,186	-70.5	-176	-72.2
The difference is due to:				
Taxes related to prior periods	-16	-0.9	-	0.0
Non-taxable dividends from subsidiaries	- 934	-55.6	-	0.0
Non-taxable Group contributions from subsidiaries ¹⁾	- 529	-31.5	-175	-71.7
Non-deductible Group contributions to subsidiaries ¹⁾	13	0.8	-	0.0
Other non-taxable/non-deductible items	280	16.7	-1	-0.5
Total	-1,186	-70.5	-176	-72.2

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 pays the majority of the Group's total Swedish taxes. These are recognized in profit and loss as Group contributions paid and received. The net of given and received Group contributions per subsidiary amounts to 22% and is the respective subsidiary's share of the tax cost for the Group.

Current tax liability (+), tax asset (-)

SEKm	2017	2016
Value, January 1	-	-
Current tax expense	-	-
Paid tax	- 4	-
BS Value, December 31	-4	-

Deferred tax expense (+), tax income (-)

SEKm	2017	2016
Changes in temporary differences	- 800	-230
Adjustments for prior periods	- 16	0
Total	- 816	-230

Provisions for taxes

SEKm	Value, January 1	Deferred tax income	Value, December 31
Provisions for pensions	- 176	- 14	-190
Tax loss carryforwards	0	-1,016	-1,016
Other	- 54	214	160
BS Total	-230	- 816	-1,046

Appropriations and untaxed reserves

Accumulated depreciation in excess of plan totaling SEK 1m (-) is included in the Parent Company's untaxed reserves.

PC4. INTANGIBLE FIXED ASSETS

Capitalized development costs

SEKm	2017	2016
Accumulated costs	0	-
Accumulated amortization	0	-
Residual value according to plan	0	0
Value, January 1	0	-
Investments	-	0
Sales and disposals	-	-
Amortization for the period	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	2017	2016
Accumulated costs	7	7
Accumulated depreciation	-2	0
Residual value according to plan	5	7
Value, January 1	7	-
Investments	0	7
Sales and disposals	-	-
Depreciation for the period	-2	-
BS Value, December 31	5	7

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	2017	2016
Accumulated costs	168,883	167,601
Accumulated impairment	-1,269	-
Carrying amount	167,614	167,601
Value, January 1	167,601	0
Investments	48,882	-167,601
Divestments	-47,600	-
Impairment for the period	-1,269	-
BS TPC6:1 Value, December 31	167,614	167,601

The shares in Essity Försäkringsaktiebolag were conveyed at carrying amount as part of the transfer of business that took place on December 30, 2016 from Svenska Cellulosa Aktiebolaget SCA to Essity Aktiebolag but were recognized on December 31, 2016 in Svenska Cellulosa Aktiebolaget SCA's balance sheet because the holding, from a civil judicial perspective, required the approval of the Swedish Financial Supervisory Authority (Finansinspektionen) for the transfer to occur. During 2017, the Authority granted its approval for the change of ownership and the holding is recognized under capital expenditures in 2017. During the year, a capital contribution amounting to SEK 1,269m was also given to SCA Hedging AB. An impairment was recognized in the same amount. A capital contribution of SEK 47,599m was also made to Essity Group Holding BV. The wholly owned company SCA Research Aktiebolag was merged with its Parent Company Essity Aktiebolag in July 2017. The company has also reduced its holding in Essity Capital NV by SEK 47,598m by reducing its equity and repayment could be made.

TPC6:1 Essity Aktiebolag's holdings of shares and participations in subsidiaries, December 31, 2017

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOF	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
Foreign subsidiaries:					
Essity Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	143,434
Essity Capital NV	0810.983.346	Diegem, Belgium	2,558,169	100	23,887
Essity Italy S.p.A	3318780966	Capannori, Italy	125,000	25	279
Total carrying amount of subsidiaries					167,614

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 Wittenhausen GmbH, domicile in Wittenhausen, Germany
9. Essity Hygiene Holding GmbH, domicile in Mannheim, Germany

PC7. RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Receivables from and liabilities to subsidiaries

SEKm	2017	2016
Fixed assets		
Other receivables	435	-
BS Total	435	-
Current assets		
Interest-bearing receivables	469	-
Other receivables	48,301	103
BS Total	48,770	103
Non-current liabilities		
Other liabilities	12	-
BS Total	12	-
Current liabilities		
Interest-bearing liabilities	43,964	68,205
Other liabilities	48,497	686
BS Total	92,461	68,891

The distribution between interest-bearing liabilities and other liabilities has been adjusted for items affecting comparability compared with the 2016 Annual Report for SCA Hygiene AB.

PC8. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2017	2016
TPC8:1 Prepaid expenses and accrued income	19	45
Other receivables	141	1
BS Total	160	46
TPC8:1 Prepaid expenses and accrued income		
Prepaid lease of premises	7	7
Prepaid financial expenses	1	30
Prepaid insurance premiums	1	-
Other items	10	8
Total	19	45

PC9. FINANCIAL INSTRUMENTS

Financial items

SEKm	2017	2016
Result from participations in subsidiaries		
Dividends from subsidiaries	4,245	-
Group contributions received from subsidiaries	439	-
Group contributions paid to subsidiaries/Parent Company	-678	-225
Impairment of shares in subsidiaries	-1,269	-
Interest income and similar profit items		
Interest income, external	0	-
Interest income, subsidiaries	491	16
Interest expenses and similar loss items		
Interest expenses, external	-442	-16
Interest expenses, subsidiaries	-470	-13
Other financial expenses ¹⁾	-69	-6
IS Total	2,247	-244

¹⁾ The item other financial expenses includes financial fees and exchange rate differences. Exchange rate differences amounted to SEK 19m (-2), net.

Interest-bearing liabilities

Non-current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2017	2016	2017	2016
Bond issues	35,288	18,204	35,670	18,828
Other non-current loans with a term > 1 yr < 5 yrs	4,444	1,505	4,419	1,499
Other non-current loans with a term > 5 yrs	1,965	3,297	1,823	3,207
BS Total	41,697	23,006	41,912	23,534

Current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2017	2016	2017	2016
Bond issues	2,946	-	2,946	-
Loans with maturities of less than one year	1,500	-	1,500	-
BS Total	4,446	-	4,446	-

The counterparty for all outstanding bond issues within Svenska Cellulosa Aktiebolaget SCA was changed to Essity Aktiebolag in 2016. In 2017, the company also assumed all other non-current loans recognized in Svenska Cellulosa Aktiebolaget SCA's balance sheet on December 31, 2016.

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm
Notes SEK 600m	2019	602	604
Notes SEK 900m	2019	899	910
Green bond SEK 1,500m	2019	1,499	1,521
Notes EUR 300m	2020	2,947	2,971
Notes EUR 500m	2021	4,895	4,895
Notes EUR 600m	2022	5,866	5,872
Notes EUR 500m	2023	4,884	5,265
Notes EUR 600m	2024	5,872	5,868
Notes EUR 300m	2025	2,944	2,888
Notes EUR 500m	2027	4,880	4,876
Total		35,288	35,670

Financial instruments by category

AP ACCOUNTING PRINCIPLES

In accordance with Paragraph 3 of RFR 2, the Parent Company has chosen not to apply IAS 39. The Parent Company recognizes financial fixed assets at cost less any impairment and financial current assets according to the lower of cost or market rule. For derivatives used for hedging purposes, recognition is determined by the hedged item. Currency derivatives used to hedge foreign receivables and liabilities are remeasured at the closing day rate to match the currency remeasurement in the receivable/liability. Interest rate derivatives used to hedge interest rate exposure in financial receivables or liabilities are recognized at fair value as of the 2017 fiscal year. The accounting principles for financial instruments are applied for the items below. The financial instruments in the Parent Company are classified as loans and trade receivables for assets, and other financial liabilities measured at amortized cost for liabilities. No other categories have been utilized over the past two years. These balance sheet items are not fully reconcilable since they may include items that are not financial instruments.

Loan and trade receivables

SEKm	2017	2016
Assets		
Financial fixed assets		
Interest-bearing receivables	51	21
Receivables from subsidiaries ¹⁾	435	-
Current assets		
Receivables from subsidiaries ¹⁾	1,440	103
Other current receivables	1	-
Cash and bank balances	-	-
Total	1,927	124

Financial liabilities measured at amortized cost

SEKm	2017	2016
Liabilities		
Non-current liabilities		
Liabilities to subsidiaries ¹⁾	12	-
Interest-bearing liabilities	41,697	23,006
Current liabilities		
Interest-bearing liabilities	4,446	-
Liabilities to subsidiaries ¹⁾	44,435	68,549
Accounts payables	29	4
Other current liabilities	284	135
Total	90,903	91,694

¹⁾ The lines Receivables from subsidiaries include the carrying amount of financial derivatives in respect of subsidiaries of SEK 1,195m (103). The lines Liabilities to subsidiaries include the carrying amount of financial derivatives in respect of subsidiaries of SEK 408m (342). The net fair value of these derivatives amounts to SEK 787m (446). The nominal value of the derivatives is SEK 105,056m (31,560).

PC10. OTHER CURRENT LIABILITIES

Other current liabilities

SEKm	2017	2016
TPC10:1 Accrued expenses and prepaid income	440	280
Other operating liabilities	32	2
BS Total	472	282

TPC10:1 Accrued expenses and prepaid income

SEKm	2017	2016
Accrued interest expenses	284	135
Accrued social security costs	55	39
Accrued vacation pay liability	15	18
Other liabilities to personnel	64	74
Other items	22	14
Total	440	280

PC11. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented on page 144. 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
2017	Number of shares, December 31, 2017	702,342,489	2,350.4	0.5

The quotient value of the company's shares amounts to SEK 3.35 (100).

PC12. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities

SEKm	2017	2016
Guarantees for subsidiaries	53,489	-
Other contingent liabilities	94	-
Total	53,583	-

Pledged assets

SEKm	2017	2016
Chattel mortgages	-	-
Other	184	-
Total	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 12, 2018.

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 2017 calendar year. The figures included comply with relevant reporting and consolidation principles in accordance with the principles in the financial statements. Essity uses the global Greenhouse Gas Protocol standard for measuring, managing and reporting carbon dioxide data. The figures cover the Essity Group's wholly owned subsidiaries and subsidiaries in which Essity owns at least 50% of the company. If Essity's ownership of a company is 50% or more, the entire company is included.

An exception is made in the case of the Chinese company Vinda, in which Essity owns 51.4% of the votes and which was consolidated as a subsidiary in 2014. The data from Vinda includes the number of employees and some health and safety and environmental data. Vinda publishes an Environmental, Social and Governance (ESG) report, which is available at www.vinda.com.

Some social data from joint ventures is not included. Note H2 Code of Conduct data is one example, due to the fact that Essity and its joint ventures do not share a common code. Aside from total employee figures and the personnel turnover rate in Note H3, information from joint-venture companies is not reported. The Colombian Familia Group is Essity's largest joint-venture company (refer to Note F1). The Familia Group reports in accordance with the GRI G4 guidelines. For more information, visit www.grupofamilia.com.co.

Newly acquired businesses are integrated when they have been part of the Group for one calendar year. The historic environmental and social data of newly acquired units is included to the greatest possible extent in order to increase comparability (also refer to the section on comparability below). The data from divested units is excluded in its entirety as of the divestment date. Historic data for discontinued units is retained. Essity completed the acquisition of BSN medical in April 2017. This report includes health and safety data and some social data from BSN medical. BSN medical's operations consume less than 1% of the resources used by Essity.

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. General tables for environmental and social data can be found in the non-financial multi-year summary on pages 170–171.

Environmental data

The RMS encompasses more than 58 production sites, covering virtually the entire company's environmental impact and resource utilization from production. It includes data from manufacturing operations but not from corporate staffs, offices or joint ventures. 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, business unit level and for the Group as a whole.

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).

Social, Occupational Health & Safety (OHS) and Human Resource (HR) 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

As this is Essity's first report, figures used for the preceding year are available in 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 CO₂ and health and safety. These figures are reported in parenthesis.

The results of the Group's CO₂ target and water target are adjusted each year in relation to production levels. Other environmental data is reported in absolute figures.

GRI reporting

This is the first year that Essity has published an integrated Annual and Sustainability Report and has reported sustainability information in line with Global Reporting Initiative's (GRI) guidelines according to 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 reports in accordance with all GRI indicators and on a level identified as material. 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. In addition, Essity reports a number of general indicators according to GRI Standards: Comprehensive option as we believe this may simplify 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. More detailed 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. CODE OF CONDUCT

Essity aims to offer all employees regular training in the Code of Conduct.

During 2017, 93% of all new employees had received training in Essity's Code of Conduct and 2,200 (90%) of Essity's top and middle managers participated in Essity's Ethical Dilemma training.

Essity has developed an anti-corruption e-learning course, translated into 21 languages, which has been included in onboarding programs. In 2017, just over 200 new employees completed the training program.

In 2017, just over 200 employees completed the EU competition e-learning course or the US anti-trust e-learning course.

Sedex

In the 2017 Sedex assessment, all of Essity's main facilities received a low to medium risk classification and no facility was classified as high risk.

Reported breaches

In 2017, there were a total of 63 (71) reported cases of potential breaches of laws or of the Code of Conduct to the whistleblower function (including the internal channel for reporting breaches of the Code of Conduct). Of the 63 suspected breaches reported, five were still under investigation at the end of the year. Among the reported complaints, three related to the suspicion of corruption. All three investigations have been closed and in one case corruption was verified relating to a supplier.

Among the other reported cases of potential breaches, 30 related to HR, such as discrimination and harassment, and the remaining 30 concerned various other company policies. A total of 12 employees were dismissed. No one was dismissed for verified corruption.

Internal audits conducted of the Code of Conduct

In 2017, Code of Conduct audits were conducted at two sites in Mexico and one site each in Russia, Brazil, the US, Poland and Austria. Generally, employees are satisfied and positive to Essity as a company and employer. In units acquired from BSN medical in Mexico and Brazil, there were a number of aspects to improve to raise levels to the normal Essity standard, including the low or complete lack of any awareness of BSN medical's or Essity's Code of Conduct among employees. An action program is in place and will be implemented in 2018. The internal audit noted that other plants need to improve follow-up of overtime and evacuation drills. All plants have action programs in place.

Audits conducted of business ethics

In 2017, business ethics audits were conducted in Brazil, Finland and Romania. Most of the criteria were in place in Finland and Romania, though there was a need to improve the quality of performance reviews and follow-up of who had completed courses in the Code of Conduct and other policy documents. The audit in Brazil related to the acquired BSN medical unit, which has several areas that need to be improved to reach Essity's standard. These include staff that require further training in the Code of Conduct and other policy documents, the introduction of performance reviews and the use of encryption for e-mails. An action plan is in place and will be implemented in 2018.

Ongoing anti-trust cases

In December 2017, the Chilean competition authority concluded its investigation of the company's tissue operations in Chile with a decision to fine the company about USD 12.2m. The company has appealed the decision.

Andean Community's investigation of Productos Familia S.A.'s sales in Ecuador and Colombia continued during the year and is not yet concluded. This is also the case for the ongoing investigation into the company's tissue operations in Hungary.

H3. EMPLOYEES

Essity comprises on average 46,385 (42,149, 39,951) employees in some 50 countries, of whom 34% (32, 31) are women. The employee turnover rate is 14% (13, 11). The majority of Essity's employees are permanent/full-time employees and a minor share, about 5%, are temporary/part-time employees.

Individual development

In 2017, 92% (90, 96) of white-collar employees participated in performance management reviews. The corresponding number for blue-collar employees is 80% (85, 85).

In all the reporting countries, Essity pays above the legislated minimum salaries. France, Germany and Sweden are three of the wholly owned Essity subsidiaries with the most employees. In France, female managers' salaries ranged between 96% and 109% of men's. For women on non-managerial levels, the corresponding figures were 105–114%. In Germany, female managers' salaries ranged between 86% and 89% of men's. For women on non-managerial levels, the corresponding figures were 99% and 129%. In Sweden, female managers' salaries ranged between 86% and 96% of men's. For women on non-managerial levels, the corresponding figures were 96% and 104%.

Training

In 2017, 127 people participated in the mandatory one-day onboarding program for all newly appointed managers. 312 participated in Core 1, a six-day program to develop managers who have been in their role for six to 12 months. 80 managers participated in Core 2, a leadership program to develop people's capabilities to lead in a complex environment, engage people and drive change. Creating Value and Driving Business Performance are two courses with the aim to further strengthen participants' capabilities in strategic leadership areas. In 2017, 65 people participated in these programs.

Other programs include the Hygiene Academy, which offers branding training, and the Digital Academy. Essity also has sustainability training programs in place that focus on innovations, messages and communication. The aim to improve the understanding of sustainability's impact on products and services, customers and consumers. In total, 1,415 people participated in 47 different training sessions in the programs.

The average number of training hours per employee was 17.

Diversity

In 2017, the proportion of women among Essity's top management was 36% (33, 35). Among senior management, the proportion of women was 27% (25, 24) and 23% (27, 29) among senior/middle management.

Senior management comprised 18 (21, 28) different nationalities and the corresponding figure was 36 (32, 42) for senior/middle management. Encouraging greater diversity is part of Essity's leadership platform and succession planning.

Leveraging a strong winning culture

Essity carries out All-Employee Surveys on a regular basis for all employees. The latest survey was conducted in 2015, and received a response rate of 88% (86, for year 2013) of the workforce. The next All-Employee survey will take place in 2018.

The survey covers a total of 47 aspects in nine dimensions. The results are expressed as indexes for leadership, innovation, customer orientation and engagement, as well as an overall Essity index. The Essity index for 2015 was 72 (70, for year 2013) on a scale 0–100.

All managers prepare action plans together with their employees based on the outcome of the survey. The next employee survey will be carried out in 2018.

H3. EMPLOYEES, CONT.

Employee relations

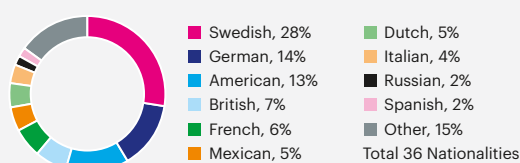
Union involvement varies among Essity's countries of operation, but on average 61% (54, 58) of Essity's employees are covered by collective bargaining agreements.

In addition, there are health and safety committees on which representatives of about 86% (87) of the workforce serve.

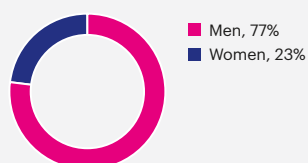
WASH pledge

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. By the end of 2017, 79% (61) of Essity's wholly owned hygiene products' production sites complied with the standard.

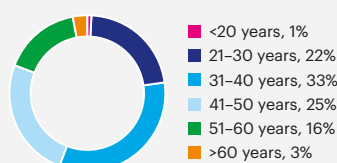
Senior and middle management by nationality 2017



Senior and middle management by gender 2017



Age distribution 2017



H4. HEALTH AND SAFETY

Essity's Group target is to decrease the accident frequency rate by 50% in the 2014-2020 period. In 2017, the accident frequency rate declined by 6% year-on-year to 3.8 (4.1, 5.5, 6.2) and 38% compared with the base year of 2014. Unfortunately, a contractor was fatally injured during 2017 in a fire at our factory in Svetogorsk in Russia, which confirms the need for a relentless focus on safety activities.

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.
- Frequency Rate (FR): LTA / 1,000,000 hours worked.
- Incidence Rate (IR): LTA / 200,000 hours worked.

HEALTH AND SAFETY, KEY FIGURES¹⁾

	2017	2016	2015	2014
Average headcount	27,127	24,949	24,207	23,808
Lost Time Accidents, LTA	210	207	281	311
Contractor Lost Time Accidents, CLTA	34	33	33	38
Days Lost due to Accidents, DLA	4,877	5,201	6,378	5,723
Accident Severity Rate, ASR	23.2	25.1	22.7	18.4
Accident Frequency Rate, FR (LTA/1,000,000 WH)	3.8	4.1	5.5	6.2
Incident Rate, IR (LTA/200,000 WH)	0.8	0.8	1.1	1.2
Fatalities (employees)	0	1	0	0
Number of zero-accident sites	26	19	17	17
Number of sites included in reporting	85	72	70	68

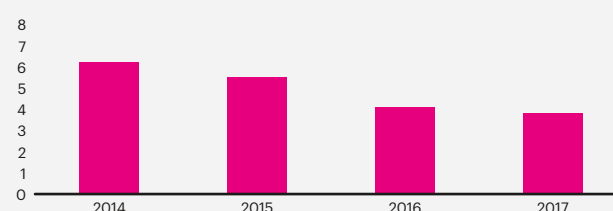
¹⁾ 100% cover for production facilities and excluding sales and administration offices.

Sickness absence

Using information supplied by 15,962 employees, average sickness absence in 2017 was 4.86%. The corresponding figures for 2016 and 2015 were 4.88% (16,258 employees) and 4.95% (16,367) respectively.

Accident Frequency Rate (FR)

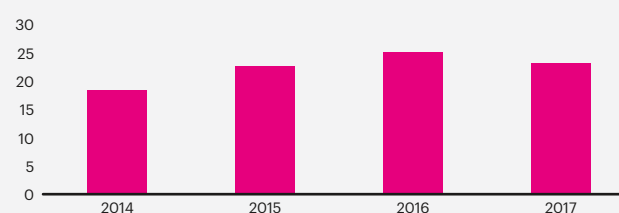
Frequency Rate, FR (LTA¹⁾/1,000,000 WH



¹⁾ Lost Time Accidents.

Accident Severity Rate (ASR)

Accident Severity Rate (ASR)¹⁾



¹⁾ Lost days in relation to the number of accidents.

H5. CUSTOMERS AND CONSUMERS

Complaints have remained at a stable and low level in recent years. For Personal Care products, the complaint frequency is lower than one in a million supplied products. In the Tissue operations, the corresponding figure is 2.9 per thousand tons.

Customer surveys

Customer feedback enables Essity to offer better products and solutions. Every business unit has methods to investigate customer satisfaction.

Essity conducts a systematic customer follow-up. This includes external reports, independent surveys and global systems for customer feedback.

Essity also offers expertise and support for the development of operations at such institutions as nursing homes, where Essity can 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.

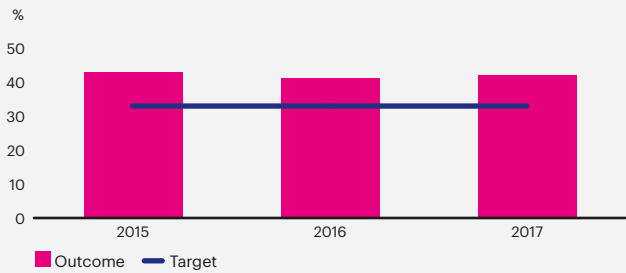
H6. INNOVATION

Essity has a Group target to provide social and/or environmental improvements on innovations launched. In 2017, we launched 41 innovations. 42% (41; 43) of Essity's innovations yielded social and/or environmental improvements. The aim is for at least one-third of all innovations to achieve these criteria each year.

People and nature innovations

Innovations that improve social and environmental performance also make financial sense. For Essity, such innovations are linked to 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.

H7. HYGIENE SOLUTIONS

Essity's aim is to make our knowledge about hygiene available to customers and consumers. In 2017, we educated more than 2.5 million people in health and hygiene. Most (86%) 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.

H8. FIBER SOURCING

Essity's goal for fiber sourcing is that all fresh fiber in our products is to be FSC® or PEFC™ certified. At a minimum, the fiber must meet the requirements of the FSC standards for Controlled Wood. Goal fulfillment in 2017 was that 99.9% of all fresh fiber met the goal criteria.

Renewable raw materials (fresh fiber and recycled fiber) account for the largest share of the material used in an average Essity product. Synthetic materials are used in highly absorbent hygiene products to improve quality and function.

Essity's fiber use

In 2017, 5.9 million tons of fresh fiber and recovered fiber were delivered to Essity. Fresh fiber, 3.65 million tons, consists mainly of pulp (87%) and timber (12%). Packaging, mother reels and products from third parties account together for 1%.

Of the 2.12 million tons of recovered paper, 94% is used in tissue production. The remaining 6% comprises recovered fiber content in sourced packaging.

In 2017, 3.65 million tons of fresh fiber were delivered as timber, pulp, packaging, mother reels and products from a third party. 65% of the fiber was FSC/PEFC certified and nearly 35% fulfilled the FSC standards for Controlled Wood.

Fresh fiber

Pulp: 63% of the global pulp deliveries was FSC or PEFC certified and 36% fulfilled the FSC standards for Controlled Wood. The remaining 1% was from controlled suppliers and other certification systems.

Wood: 87% was FSC or PEFC certified and the remaining share fulfilled the FSC standards for Controlled Wood.

Packaging: 32% was FSC or PEFC certified and the remaining share came from controlled sources.

Mother reels: 16% was FSC/PEFC certified and the remaining share fulfilled the FSC standards for Controlled Wood.

Third-party supplied articles: More than one-third of Essity-branded wet wipes (60% third-party-supplied articles) were FSC certified. The fresh fiber in the remaining two-thirds came from FSC Controlled Wood sources or other controlled sources. 80% of the fiber in other outsourced products (40% of third-party-supplied articles) are from certified suppliers and 20% from a controlled and identifiable source.

Recovered fiber

The proportion of recovered fiber in our products varies between regions due to differences in consumer preferences and fiber supply and demand. The North American operations use almost only recovered fiber, while the proportion of recovered fiber is 68% in Latin America and 33% in Europe.

Supplier audit results

Among Essity's global pulp suppliers to wholly owned Essity companies, the ten largest accounted for more than 80% of the purchase cost for pulp. Essity audits its suppliers to verify their compliance with the Essity's sourcing policy for fiber and Essity's Global Supplier Standard. All pulp suppliers were assessed using a questionnaire about their continued compliance with the requirement for chain of custody certification and to update fiber and ecolabel information. All pulp suppliers demonstrated continued compliance with the requirements of Essity's Global Supplier Standard. During 2017, Essity's personnel visited five supplier plants to conduct compliance checks. In addition to these pulp supplier audits, Essity has provided support to some raw material suppliers where fiber may be part of the raw material (i.e. viscose in non-wovens) to help them achieve FSC chain of custody certification.

H9. ENERGY AND EMISSIONS TO AIR

Essity's Group target is to reduce CO₂ emissions from fossil fuels and from purchased electricity and heating by 20% by 2020, with 2005 as reference year.

CO₂ emissions declined at year-end 2017, in relation to the production level, by 17.9% compared with the reference year of 2005.

Energy utilization

Energy use includes purchased energy (heating, electricity and fuel) supplied to production units, energy generated from wood, liquor, bark, sludge and waste paper, and electricity generated on site. The energy data figures stated therefore include both a fuel component and an electricity component.

ESAVE

In 2010, Essity adopted a target for ESAVE: to reduce energy consumption per ton of product produced by 14% by 2020. In 2017, a number of ESAVE projects were implemented, resulting in a 0.4% (0.9) year-on-year reduction in energy used per ton of product produced. The accumulated energy savings in the 2010–2017 period amounted to 9.4%, corresponding to a 1.2 TWh reduction in energy consumption.

The EU Emissions Trading Scheme (ETS)

Essity had 24 mills and plants included under the ETS in 2017. Essity's operations have a deficit of emission allowances during the third phase of 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 2017 was about EUR 5.8 per ton and Essity purchased 240,000 emission rights.

Emissions

The company's total emissions are determined by fuel consumption, which in turn is determined by the level of production. Changes in production volumes over the past few years are measured in tons and cubic meters.

Air emissions comprise emissions from all combustion units at Essity's production sites, including fossil fuel and biofuel emissions and emissions from purchased thermal energy. When energy (primarily thermal energy and/or electricity) is supplied to an external facility, air emissions are

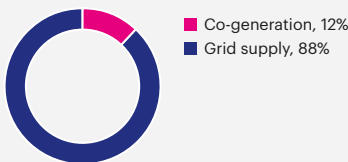
reduced in relation to the energy amount delivered and the reduction is distributed among Essity's main products.

Three chemical compounds are measured and reported in relation to air emissions: NO_x, SO₂ and fossil CO₂. Essity uses Group-wide established procedures and principles for calculating RMS data so as to create comparability.

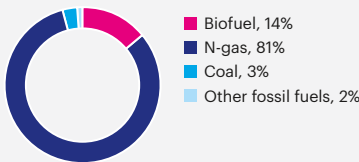
CO₂ emissions from Essity's use of fossil fuels corresponded to 1,554 ktons and purchased electricity to 1,351 ktons during the year.

Essity's specific (related to production) emissions (Scope 1 and 2) corresponded to 0.75 ktons (0.78; 0.74) CO₂ /ktons production in 2017.

Electricity consumption 2017

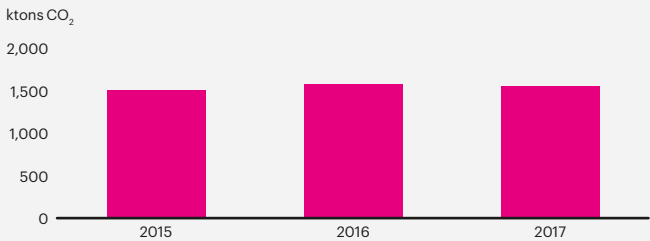


Distribution of fuel consumption 2017



All biofuels are renewable, the others are fossil-based (non-renewable).

Air emissions from fossil fuels



H10. WATER

Essity's Group water target is to reduce levels of suspended solids by 10% by 2020, with 2014 as reference year. Our tissue operations will also reduce water usage and organic content (BOD) by 10% by 2020, with 2014 as reference year.

In 2017, our plants surpassed the target and reduced suspended solids by 19.7%. Our tissue operations reduced water usage by 4.7% and the amount of organic content (BOD) by 25.4%.

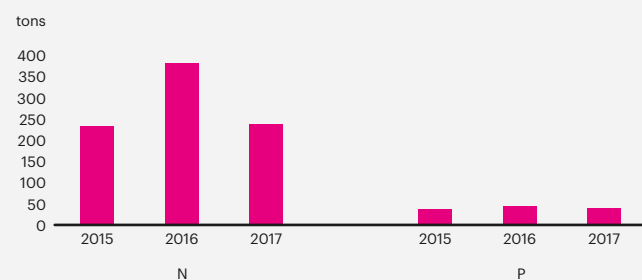
Usage and discharge of water

Most of the water consumed in the Group's is used to transport fibers during production processes and the remainder is mainly used as cooling water. 74% 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 process water is 72 Mm³. The water is treated using mechanical and biological treatment systems. The figures for 2017 refer to process water emissions.

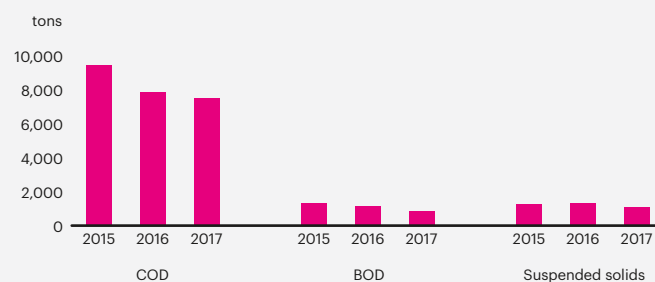
The emissions to water stated in the tables comprise COD, BOD, suspended solids, AOX, P and N. Methods of measuring differ in some respects.

In 2017, the Group used 104 million cubic meters of water in pulp and paper production.

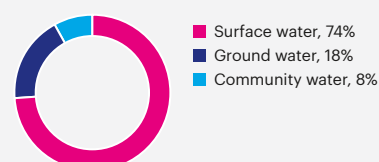
Water emissions, N, P



Water emissions, suspended solids



Distribution of water supply

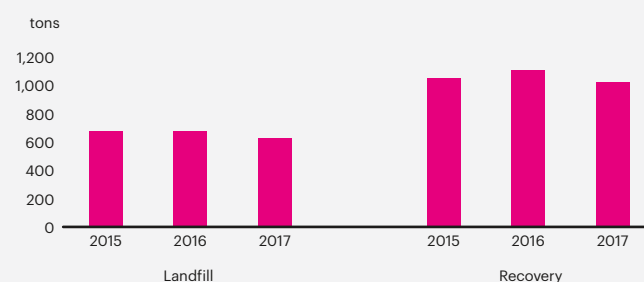


H11. WASTE

Essity's target for production waste is that materials and energy will be recovered from all waste from all production units by 2030. In 2017, Essity's production waste amounted to a total of 1.65 Mtons. In Essity's production process, waste is generated in the form of ash, sludge, organic waste and/or plastic. The production sites proactively work to reduce waste and to find alternative solutions for their waste. In 2017, a significant part (1.02 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. The main types of recycled waste are ash, sludge, organic waste and plastics. A very small proportion (0.16% or 2,600 tons) is hazardous waste, which is primarily waste oil, but also includes organic solvents, batteries and strip lights.

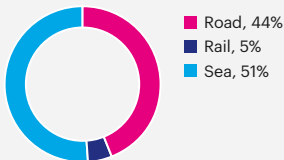
Distribution of solid waste



H12. 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 use of transportation is equivalent to 12.7 billion ton-kilometers (12, 14). 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 2017 amounted to 457,000 tons (517,000; 515,000). The difference in the estimated carbon emissions is partially due to differing calculation methods.

Distribution of transport usage



Essity's transport usage corresponds to 12.7 billion ton kilometers. Emissions from transportation of Essity's raw materials and products corresponded to 457,000 tons of CO₂ emissions.

H13. SUPPLY CHAIN MANAGEMENT

Essity's target for responsible sourcing is that we shall evaluate all of our supply streams from a risk perspective. By 2020, we aim to source 100% of our procurement spend from suppliers committed to the criteria specified in our Global Supplier Standard.

In 2017, 64% (43) of the procurement spend was sourced from suppliers who fulfil these criteria. The target for 2017 was 61%. Furthermore, Essity's target is to use established procedures to conduct risk evaluations of relevant sourcing categories, where the target is 53 sourcing categories by 2020. During 2017, 35 sourcing categories (66%) were evaluated, which was in line with the target for 2017.

Ethical audit results

During the year, Essity evaluated the outcome from 25 ethical supplier audits, of which 16 were carried out by SGS on Essity's behalf in India, China, Turkey, Saudi Arabia, Brazil, Russia and Mexico. In addition, nine ethical audits performed by another customer of the supplier were approved by Essity.

If critical findings are identified, Essity is informed within 24 hours. To date, this kind of reaction has been the result of excessive overtime, overtime not being paid at a premium, no evidence of fire drills being conducted in the last 12 months or insufficient or non-existing procedures for verifying workers' age upon recruitment. No agreements with global suppliers were terminated on the grounds of sustainability-related non-compliance in 2017.

Approximately 81% of the hygiene operations' supplier base for raw materials and products is located in Europe, 18% in the Americas and 1% in Asia/Middle East. Many of the global, strategic suppliers' production facilities located in Asia and Latin America belong to large multinational corporations based in Europe and the US, a conscious choice by Essity to reduce ethical risks within our supply chain.

Global and regional suppliers of raw materials and merchandise represent about 61% (50) of the hygiene operations' procurement spend. 22% (21) 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. An ethical audit of a supplier can also be triggered by other indicators, such as a low rating in Sedex, a low health and safety score in Essity's supplier qualification audit or the outcome from Essity's 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. After 2017, we have a total of 481 supplier plants that share this type of data via Sedex.

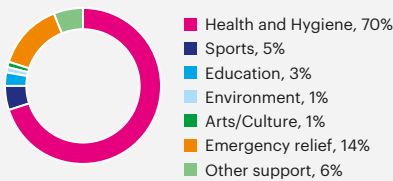
H14. COMMUNITY RELATIONS

Essity strives to be a dedicated partner in the local communities in which it operates.

In 2017, Essity invested approximately SEK 16m in just 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/organization or their representatives. Essity did not support any political or religious organizations or projects in 2017.

Community relations by focus area



PC15. PROPOSED DISPOSITION OF EARNINGS**ANNUAL ACCOUNTS 2017**

Disposition of earnings in Essity Aktiebolag	
Non-restricted equity in the Parent Company:	
retained earnings	73,239,091,707
net profit for the year	2,495,963,709
Total	75,735,055,416
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	71,696,586,104 ¹⁾
Total	75,735,055,416

¹⁾ The company's equity would have been SEK 614,201,531 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 2017, 2016 and 2015 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.

February 21, 2018

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

Johan Malmquist
Board member

Bert Nordberg
Board member

Louise Svanberg
Board member

Örjan Svensson
Board member,
appointed by the employees

Lars Rebién Sørensen
Board member

Barbara Milian Thoralfsson
Board member

Niclas Thulin
Board member,
appointed by the employees

Our audit report was submitted on February 21, 2018
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

PC16. AUDITOR'S REPORT

To the general meeting of the shareholders of Essity Aktiebolag (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 Aktiebolag (publ) except for the corporate governance statement on pages 84–93 and the statutory sustainability report on pages 77–83 and 149–156 for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 38–157 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 2017 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 2017 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 the corporate governance statement on pages 84–93 or the statutory sustainability report on pages 77–83 and 149–156. 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 2017 amounted to 34,5 billion SEK. An impairment test is a complex process and contains a high degree of judgment regarding future cash flows and other assumptions. We have therefore assessed valuation of goodwill and other intangibles assets with an indefinite useful life to be key audit matter. 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. 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.	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 as appropriate included valuation experts in the team performing our review. 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 rise 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. Finally we have evaluated if disclosures provided in Note D1 ("Intangible assets") in the company's notes are appropriate, specifically with regards to be 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 related sales incentives are areas with a greater degree of estimates and assessments. We have noted that rebates and adjustments of sales prices in some cases can be material. Normal incentives related to sales are reported as such reduction of the company's revenue. The company applies different incentive programs to increase sales. 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.	In our audit we have reviewed the accrued costs related to bonuses and rebates to customers as of 31 December 2017 which amounted to 4.4 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2017. Our audit also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2017. We have also reviewed non-standard customer agreements. In our audit we have tested larger payouts to the company's customers that have taken place during 2017 in order to confirm that they are in accordance with customer agreements and reported in the correct accounting period. 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.

ACQUISITION OF BSN MEDICAL

Description	How our audit addressed this key audit matter
During 2017 Essity acquired BSN medical. The purchase price for the shares was 1 394 million EUR and the takeover of net debt amounted to 1,321 million EUR. Of the purchase price intangible assets amounted to 13,472 million SEK of which 13,145 million SEK was goodwill. The company's disclosures related to the acquisition is provided in Note F6 ("Acquisitions and divestments"). The accounting for the acquisitions has required significant estimates and assumptions from management. The most important assumption is the allocation of the purchase price to acquired assets and liabilities and necessary adjustments to the group's accounting principles. In preparing the purchase price allocation the company has made several assumptions such as future cash flows, growth, discount rate and choice of valuation model. We have assessed the accounting for the acquisition to be a key audit matter due to the inherent high degree of judgment regarding future cash flows and other assumptions.	In our audit we have evaluated and reviewed management's processes for preparing the purchase price allocation by, among other things, evaluating the reasonableness of future cash flows and growth rate assumptions. We have, with support from our valuation experts, reviewed the company's models and methods used in preparing the purchase price allocation, the reasonableness in choice of valuation model, key assumptions such as discount rate, future cash flows and useful life of assets. Our audit procedures have also consisted of a review of both the share purchase agreement and the opening balance sheet at the acquisition date. We have also audited the adjustments made due to the difference in the acquired company's accounting principles compared to those applied by Essity. Finally we have evaluated the appropriateness of the disclosures made in the annual report.

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 1-37 and 162-174. 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.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may

cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Essity Aktiebolag (publ) for the year 2017 financial year and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the require-

ments which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 84–93 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 *The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 66–83 and 149–156, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 *The auditor's opinion regarding the statutory sustainability report*. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB with Hamish Mabon, Box 79850, 103 99 Stockholm, was appointed auditor of Essity Aktiebolag (publ) by the general meeting of the shareholders on the 5 April 2017 and has been the company's auditor since the 26 May 2017.

Stockholm 21 February 2018

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

GRI index and index for sustainability report in accordance with the Annual Accounts Act

Essity's 2017 Annual and Sustainability Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standard: Core. The following index shows where information on the GRI indicators can be found. The report also includes requirements placed on sustainability reporting as stated in the Annual Accounts Act. The report has been reviewed by Ernst & Young.

GRI index

General Standard Disclosures

	Disclosure	Page	Comment/Omission
	GRI 101: Foundation 2016		
	GRI 102: General disclosures 2016		
ORGANIZATIONAL PROFILE			
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	102-2 Activities, brands, products and services	8, 46, 52, 56	
	102-3 Location of headquarters	173	
	102-4 Countries in which operations are located	112–113	
	102-5 Nature of ownership and legal form	38–39	
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	102-7 Scale of the organization	2–5	
	102-8 Information on employees and other workers	150	
	102-9 Supply chain	83	
	102-10 Significant changes to the organization and its supply chain	60–61	
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STRATEGY			
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	102-26 Highest governance body's role in setting purpose, values and strategy	87	
STAKEHOLDER ENGAGEMENT			
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	102-42 Identification and selection of stakeholders	74	
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REPORTING PRACTICE			
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	102-51 Date of most recent report	–	This is Essity's first
	102-52 Reporting cycle	149	
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	102-55 GRI content index	162–164	
	102-56 External assurance	149	

GRI index and index for sustainability report in accordance with the Annual Accounts Act

Specific Standard Disclosures

GRI Standard	Description	Page	Comment/Omission	Topic in Essity's materiality analysis
ECONOMIC				
Economic performance GRI 201: Economic Performance 2016	103-1/2/3* 201-1	DMA Direct economic value generated and distributed	66-71 73	Risk management Resource efficiency
Indirect Economic Impacts GRI 203: Indirect Economic Impacts 2016	103-1/2/3* 203-2	DMA Significant indirect economic impacts	77-78 12-13, 19-20, 34-36, 66-71	Risk management
Anti-corruption GRI 205: Anti-corruption 2016	103-1/2/3* 205-1 205-3	DMA Operations assessed for risks related to corruption and the Transparency significant risks identified Actions taken in response to confirmed incidents of corruption	37, 78-79 74, 150 150, 156	Business ethics Transparency
Anti-competitive Behavior GRI 206: Anti-competitive Behavior 2016	103-1/2/3* 206-1	DMA Anti-trust and monopoly court cases	74-75 150	Business ethics Transparency
ENVIRONMENT				
Energy GRI 302: Energy 2016	103-1/2/3* 302-1 302-2 302-4	DMA Energy consumption within the organization Energy consumption outside of the organization Reduction of energy consumption	81-82 154 156 154	Resource efficiency
Water GRI 303: Water 2016	103-1/2/3* 303-1	DMA Total water withdrawal by source	82 155	Water use and water purification
Emissions GRI 305: Emissions 2016	103-1/2/3* 305-1 305-2 305-3 305-4 305-7	DMA Direct greenhouse gas (GHG) emissions (scope 1) Energy indirect greenhouse gas (GHG) emissions (scope 2) Other indirect greenhouse gas (GHG) emissions (scope 3) Greenhouse gas (GHG) emissions intensity NOx, SOx, and other significant air emissions	82 170 170 156 170 154, 170	CO2 emissions Water use and water purification Resource efficiency
Effluents and Waste GRI 306: Effluents and Waste 2016	103-1/2/3* 306-1 306-2	DMA Total water discharge by quality and destination Total weight of waste by type and disposal method	82, 155 155, 170 155, 170	Water use and water purification Resource efficiency
SOCIAL PERFORMANCE INDICATORS				
Employment GRI 401: Employment 2016	103-1/2/3* 401-1	DMA New employee hires and employee turnover	79 150, 171	Human capital
Labor/Management Relations GRI 402: Labor/Management Relations 2016	103-1/2/3* 402-1	DMA Minimum notice periods regarding operational changes	79 79	Human capital
Occupational Health and safety GRI 403: Occupational Health and Safety 2016	103-1/2/3* 403-1 403-2	DMA Percentage of total workforce represented in formal joint management-worker health and safety committees Rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities	80 151 151, 171	Occupational Health and safety
Training and Education GRI 404: Training and Education 2016	103-1/2/3* 404-3	DMA Percentage of employees receiving regular performance and career development reviews	79 150	Human capital
Diversity and Equal Opportunity GRI 405: Diversity and Equal Opportunity 2016	103-1/2/3* 405-1 405-2	DMA Composition of governance bodies and employee breakdown Ratio of basic salary and remuneration of women to men	79 87, 90-91, 150-151 150	Human capital
Non-discrimination GRI 406: Non-discrimination 2016	103-1/2/3* 406-1	DMA Actions taken in incidents of discrimination	37, 78-79 150	Business ethics Transparency

* GRI 103: Management Approach 2016.

GRI index and index for sustainability report in accordance with the Annual Accounts Act

GRI Standard		Description	Page	Comment/Omission	Topic in Essity's materiality analysis
Freedom of Association and Collective Bargaining GRI 407: Freedom of Association and Collective Bargaining 2016	103-1/2/3*	DMA	68, 78-79		Business ethics Transparency
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	150		
Child Labor GRI 408: Child Labor 2016	103-1/2/3*	DMA	68, 78-79		Business ethics Transparency
	408-1	Measures taken to eliminate child labor in risk areas	37, 150	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*	DMA	68, 78-79		Business ethics Transparency
	409-1	Measures taken to eliminate forced or compulsory labor in risk areas	78-79, 150		
Human rights GRI 412: Human Rights Assessment 2016	103-1/2/3*	DMA	68, 78-79		Human rights Business ethics Transparency
	412-2	Employee training on human rights	78-79, 150		
Supplier Social Assessment GRI 414: Supplier Social Assessment 2016	103-1/2/3*	DMA	69, 83		Human rights Business ethics Transparency
	414-2	Significant potential and actual negative impacts in the supply chain and actions taken	37, 78-79, 150	Work to combat corruption takes many different forms via training sessions	
Marketing and Labelling GRI 417: Marketing and Labelling 2016	103-1/2/3*	DMA	24		Customer and consumer satisfaction Product safety
	417-1	Product information required by procedures	81		

* GRI 103: Management Approach 2016.

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	Disclosure	Page	Comment/Omission
GENERAL			
	Business model	72-73	
ENVIRONMENT			
	Policy on environmental issues	77, 81-82	
	Risks and risk management on environmental issues	67, 81-82	
	Targets and outcomes related to environmental issues	153-156	
SOCIAL CONDITIONS			
	Policy on social issues	77-80	
	Risks and risk management on social issues	68-69	
	Targets and outcomes related to social issues	150-151	
RESPECT FOR HUMAN RIGHTS			
	Policy for human rights	77-79	
	Risks and risk management on human rights issues	68, 74-75	
	Targets and outcomes related to human rights issues	150	
ANTI-CORRUPTION			
	Policy for work in anti-corruption	77-79	
	Risks and risk management in anti-corruption	68, 74-75	
	Targets and outcomes related to anti-corruption	150	

AUDITOR'S COMBINED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT OF ESSITY AKTIEBOLAG (PUBL)

This is the translation of the auditor's report in Swedish.

To Essity Aktiebolag (publ)

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 2017. The Company has defined the scope of the Sustainability Report to the areas referred to in the GRI index on the pages 162–164.

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 explained on page 149, and are the parts 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.

We conducted our engagement in accordance with ISAE 3000 *Assurance engagements other than audits or reviews of historical financial information*, with the application of RevR 6 *Assurance of Sustainability Reports* issued by FAR.

The engagement includes a limited assurance engagement on the complete Sustainability Report and audit of environmental data – fossil fuels and grid supply – on page 170. 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. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement 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.

Hence, the conclusion based on our limited assurance procedures does not comprise 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 2018
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Outi Alestalo
Expert member of FAR