

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 Company108**

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Consolidated income statement ^{IS}

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

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

²⁾ Board proposal.

³⁾ Indicative earnings per share on the assumption that the number of issued shares in Essity as of December 31, 2016 corresponded to the number of issued shares in Essity on December 31, 2018 (702.3 million).

Consolidated statement of comprehensive income

SEKm	2018	2017	2016
IS Profit for the period	8,552	8,785	4,242
Other comprehensive income for the period			
Items that may not be reclassified to the income statement			
Actuarial gains/losses on defined benefit pension plans	-1,036	1,061	-1,569
Measured at fair value through other comprehensive income	-5	-	-
Income tax attributable to components in other comprehensive income	176	-218	421
	-865	843	-1,148
Items that have been or may be reclassified subsequently to the income statement			
Available-for-sale financial assets:			
Result from measurement at fair value recognized in equity	-	0	-1
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	471	35	275
Transferred to profit or loss for the period	-378	-56	274
Transferred to cost of hedged investments	-	10	-19
Translation differences in foreign operations	2,080	320	2,742
Gains/losses from hedges of net investments in foreign operations	-122	-1,968	-437
Other comprehensive income from associates	23	-22	12
Income tax attributable to components in other comprehensive income	4	439	-41
	2,078	-1,242	2,805
Other comprehensive income for the period, net of tax	1,213	-399	1,657
Total comprehensive income for the period	9,765	8,386	5,899
Total comprehensive income attributable to:			
Owners of the Parent Company	8,893	8,029	5,222
Non-controlling interests	872	357	677
By operating segment			
SEKm	2018	2017	2016
Personal Care	45,342	40,586	33,651
Consumer Tissue	45,125	42,014	41,560
Professional Hygiene	28,017	26,700	26,001
Other	16	-35	26
Total	118,500	109,265	101,238
	12,935	13,405	11,992

¹⁾ Excluding items affecting comparability.

Consolidated statement of change in equity

Group	2018	2017	2016
Attributable to owner of the Parent			
Value, January 1	42,289	33,204	42,986
Effect attributable to changed accounting standard IFRS 9	-9	-	-
Tax effect attributable to changed accounting standard IFRS 9	2	-	-
Total comprehensive income for the period	8,893	8,029	5,222
Dividend	-4,038	-	-
Transactions with shareholders (for further information, see note G4 Transactions with related parties on page 106)	-	842	-14,679
Private placement to non-controlling interests	3	504	240
Private placement to non-controlling interests, dilution	-	-290	-110
Issue expenses, private placement	-	-	-4
Acquisition of non-controlling interests	-	-	-799
Acquisition of non-controlling interests, dilution	-	-	348
Transferred to cost of hedged investments	1	-	-
BS Value, December 31	47,141	42,289	33,204
Non-controlling interests			
Value, January 1	7,281	6,376	5,289
Total comprehensive income for the period	872	357	677
Dividend	-397	-285	-190
Private placement to non-controlling interests	2	465	199
Private placement to non-controlling interests, dilution	-	290	110
Issue expenses, private placement	-	-	-4
Acquisition of non-controlling interests	-	78	643
Acquisition of non-controlling interests, dilution	-	-	-348
BS Value, December 31	7,758	7,281	6,376
BS Total equity, value December 31	54,899	49,570	39,580

For further information, see Note E8 Equity on page 96.

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

Group	Note	2018		2017		2016	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
IS Net sales		118,500	11,565	109,265	11,343	101,238	10,706
Operating expenses		-100,165	-9,776	-90,867	-9,433	-84,498	-8,936
Operating surplus		18,335	1,789	18,398	1,910	16,740	1,770
Adjustment for non-cash items		235	23	67	7	19	2
Operating cash surplus		18,570	1,812	18,465	1,917	16,759	1,772
Change in							
Inventories		-1,017	-99	-1,703	-177	1,059	112
Operating receivables		-344	-34	1,522	158	-298	-31
Operating liabilities		390	38	-559	-58	835	88
Change in working capital		-971	-95	-740	-77	1,596	169
Current capital expenditures, net		-4,357	-424	-3,911	-406	-4,222	-446
Restructuring costs, etc.		-918	-90	-1,091	-113	-1,102	-117
Operating cash flow		12,324	1,203	12,723	1,321	13,031	1,378
Financial items	E7	-1,157	-113	-1,182	-123	-835	-88
Income taxes paid	B5	-2,466	-241	-2,971	-308	-3,782	-400
Other		86	8	175	18	149	16
Cash flow from current operations		8,787	857	8,745	908	8,563	906
Strategic capital expenditures and divestments							
Company acquisitions	F6	-694	-68	-26,045	-2,704	-6,540	-692
Strategic capital expenditures in non-current assets		-2,424	-236	-2,101	-218	-2,033	-215
Total strategic capital expenditures		-3,118	-304	-28,146	-2,922	-8,573	-907
Divestments	F6	68	7	29	3	369	39
Cash flow from capital expenditures and divestments		-3,050	-297	-28,117	-2,919	-8,204	-868
Cash flow before transactions with shareholders		5,737	560	-19,372	-2,011	359	38
Private placement to non-controlling interests		5	-	28	3	435	46
Dividend to non-controlling interests	E8	-397	-39	-285	-30	-190	-20
Dividend	E8	-4,038	-394	-	-	-	-
Transactions with shareholders		-	-	838	87	-14,571	-1,541
Net cash flow		1,307	127	-18,791	-1,951	-13,967	-1,477
Net debt		2018		2017		2016	
		SEKm	EURm	SEKm	EURm	SEKm	EURm
Net debt, January 1²⁾		-52,467	-5,332	-35,173	-3,680	-19,058	-2,087
Net cash flow ¹⁾		1,307	127	-18,791	-1,951	-13,967	-1,477
Remeasurements to equity ¹⁾		-1,041	-102	1,061	110	-1,570	-166
Exchange rate effects, etc.		-2,203	13	436	189	-578	50
Net debt, December 31²⁾		-54,404	-5,294	-52,467	-5,332	-35,173	-3,680

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

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.28 (9.84; 9.56) was used for net debt.

Consolidated cash flow statement **CF**

Group	Note	2018		2017		2016	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Operating activities							
IS Profit before tax		9,602	937	10,723	1,113	8,173	864
T:1 Adjustment for non-cash items		6,995	683	5,717	594	6,791	718
		16,597	1,620	16,440	1,707	14,964	1,582
Paid tax	B5	-2,466	-241	-2,971	-308	-3,782	-400
Cash flow from operating activities before changes in working capital		14,131	1,379	13,469	1,399	11,182	1,182
Cash flow from changes in working capital							
Change in							
Inventories		-1,017	-99	-1,703	-177	1,059	112
Operating receivables		-344	-34	1,522	158	-298	-31
Operating liabilities		390	38	-559	-58	835	88
Cash flow from operating activities		13,160	1,284	12,729	1,322	12,778	1,351
Investing activities							
Company acquisitions	F6	-461	-45	-13,070	-1,357	-4,416	-467
Divestments	F6	68	7	29	3	369	39
T:2 Investments in intangible assets and property, plant and equipment		-6,906	-675	-6,160	-640	-6,339	-670
Sale of property, plant and equipment		134	13	152	16	83	9
Loans granted to external parties		-340	-33	-287	-30	-	-
Repayment of loans from external parties		-	-	-	-	184	19
Cash flow from investing activities		-7,505	-733	-19,336	-2,008	-10,119	-1,070
Financing activities							
Private placement to non-controlling interests		5	0	28	3	435	46
Acquisition of non-controlling interests	F6	-	-	-2	0	-	-
Change, receivables from Group companies		-	-	952	99	10,403	1,100
Loans raised		4,386	428	31,037	3,222	16,148	1,708
Amortization of debt		-6,777	-661	-25,982	-2,697	-15,614	-1,651
Dividend to non-controlling interests	E8	-397	-39	-285	-30	-190	-20
Dividend	E8	-4,038	-394	-	-	-	-
Transactions with shareholders		-	-	838	87	-14,571	-1,541
Cash flow from financing activities		-6,821	-666	6,586	684	-3,389	-358
Cash flow for the period		-1,166	-115	-21	-2	-730	-77
Cash and cash equivalents, January 1 ²⁾		4,107	417	4244	444	4,828	529
Exchange differences in cash and cash equivalents		67	-9	-116	-25	146	-8
Cash and cash equivalents, December 31²⁾	E2	3,008	293	4,107	417	4,244	444

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

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.28 (9.84; 9.56) was used.

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

T:1 Adjustment for non-cash items

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

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

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

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

Change in liabilities attributable to financing activities

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

¹⁾ Reclassification to surplus in funded pension plans.

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

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

Cash flow from operating activities

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

Cash flow from investing activities

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

Cash flow for the period

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

Consolidated balance sheet ^{BS}

Group	Note	2018		2017		2016	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Non-current assets							
Goodwill	D1	33,553	3,264	31,697	3,221	19,253	2,014
Other intangible assets	D1	21,475	2,089	21,424	2,177	7,665	802
Buildings, land, machinery and equipment	D2	51,673	5,028	48,482	4,927	47,494	4,969
Participations in joint ventures and associates	F3	777	76	1,062	108	1,096	115
Shares and participations	F5	29	3	32	3	32	3
Surplus in funded pension plans	C5	1,117	109	1,148	117	335	35
Non-current financial receivables, Group companies	G4	–	–	–	–	3	0
Non-current financial assets	E2	634	62	552	56	714	75
Deferred tax assets	B5	2,158	210	2,232	227	1,457	153
Other non-current assets		705	69	469	48	241	25
Total non-current assets		112,121	10910	107,098	10,884	78,290	8,191
Current assets							
Inventories	D3	15,234	1,482	13,739	1,396	10,944	1,145
Trade receivables	E3	18,687	1,818	17,607	1,790	15,843	1,658
Current tax assets	B5	2,126	207	769	78	740	77
Current receivables, Group companies	G4	–	–	–	–	57	6
Current financial receivables, Group companies	G4	–	–	–	–	1,433	150
Other current receivables	D4	2,599	253	2,549	259	2,333	244
Current financial assets	E2	422	41	1,105	112	244	26
Non-current assets held for sale	G1	69	7	42	4	156	16
Cash and cash equivalents	E2	3,008	293	4,107	418	4,244	444
Total current assets		42,145	4,101	39,918	4,057	35,994	3,766
Total assets		154,266	15,011	147,016	14,941	114,284	11,957
EQUITY AND LIABILITIES							
Equity	E8						
Owners of the Parent							
Share capital		2,350	229	2,350	239	0	0
Reserves		5,003	487	3,154	321	4,061	425
Retained earnings		39,788	3,871	36,785	3,738	29,143	3,049
		47,141	4,587	42,289	4,298	33,204	3,474
Non-controlling interests		7,758	755	7,281	740	6,376	667
Total equity		54,899	5,342	49,570	5,038	39,580	4,141
Non-current liabilities							
Non-current financial liabilities	E4	43,500	4,233	47,637	4,841	31,299	3,275
Non-current liabilities, Group companies	G4	–	–	–	–	48	5
Provisions for pensions	C5	5,258	512	4,541	461	5,273	552
Deferred tax liabilities	B5	7,272	707	7,090	721	3,872	405
Other non-current provisions	D6	1,694	165	1,481	151	1,407	147
Other non-current liabilities	D5	71	7	79	8	72	7
Total non-current liabilities		57,795	5,624	60,828	6,182	41,971	4,391
Current liabilities							
Current financial liabilities	E4	10,827	1,054	7,201	732	5,089	533
Current liabilities, Group companies	G4	–	–	–	–	259	27
Current financial liabilities, Group companies	G4	–	–	–	–	485	51
Trade payables		15,911	1,548	14,748	1,499	12,972	1,357
Current tax liabilities	B5	570	55	553	56	915	96
Current provisions	D6	1,472	143	1,547	157	1,409	147
Other current liabilities	D5	12,792	1,245	12,569	1,277	11,604	1,214
Total current liabilities		41,572	4,045	36,618	3,721	32,733	3,425
Total liabilities		99,367	9,669	97,446	9,903	74,704	7,816
Total equity and liabilities		154,266	15,011	147,016	14,941	114,284	11,957
Contingent liabilities and pledged assets, see Note G3 on page 106.							
Capital employed		109,303	10,635	102,037	10,370	74,753	7,821
Net debt		54,404	5,294	52,467	5,332	35,173	3,680

¹⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.28 (9.84; 9.56) 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 64.

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
Tx:x	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, 2018. Essity applies the historical cost method for measurement of assets and liabilities except for financial assets and liabilities, including derivative instruments, measured at fair value through profit or loss, which are measured at fair value either in profit or loss or in other comprehensive income.

New or amended accounting standards 2018

In this Annual Report, the Group and Parent Company apply the new and amended standards that came into effect from January 1, 2018.

IFRS 9 Financial Instruments

IFRS 9 replaces IFRS 39 and includes rules governing how financial instruments are to be classified and measured, introduces a new model for impairment of financial assets based on expected credit losses and provides clarification of the rules for hedge accounting. Information regarding the effects of the changed rules for Essity is provided in the Capital structure and financing section on page 89, in Note E1, E2, E3, E6 and in the Risks and risk management section on page 33. The effects of the transition to IFRS 9 are described in Note G5 Changes due to new accounting rules on page 107.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces 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 establishes a new regulatory framework for the manner in which a company should recognize revenue relating to commercial agreements (contracts) with customers in which the delivery of goods/services is divided up into separate identifiable performance obligations that are reported independently. Information regarding the effects of the changed rules for Essity is provided in Note B1 – Net sales – Revenue from contracts with customers on page 70. The effects

of the transition to IFRS 15 are described in Note G5 Changes due to new accounting rules on page 107.

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 2018

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 16 Leases

In 2018, Essity continued its preparations for the transition to the new standard IFRS 16 Leases. Leases have been analyzed and evaluated, system support for managing leases has been implemented and the organization has received training in the new standard and the new system support. When the standard becomes effective on January 1, 2019, Essity will apply the modified retrospective approach, entailing an adjustment of the opening balance with the cumulative effect of initially applying the standard on the first date of initial application and that comparative years will not be restated.

The lease liability is measured at the present value of the outstanding lease payments and the right-of-use asset for all leases totals an amount corresponding to the lease liability, adjusted for any prepaid lease payments and accrued lease payments recognized on December 31, 2018. For onerous leases, Essity has chosen to adjust the value of the right-of-use asset downward in an amount that in the 2018 year-end accounts was recognized as non-current and current provision. Only marginal reclassifications of accrued and prepaid lease payments and adjustments of provisions have taken place. An incremental borrowing rate has been set by currency. The average incremental borrowing rate on January 1, 2019 was approximately 3%. The transition does not have any impact on equity.

Essity has decided to apply the exemption rules for short-term leases and leases where the underlying asset has a low value. These leases are not included in the right-of-use asset or the liability. In its application of the standard, Essity has determined that a time horizon of five years can generally be applied to leases of offices and distribution centers with no fixed end date even if the formal lease term is shorter.

The following preliminary adjustments are recognized in Essity's balance sheet on January 1, 2019 when the standard became effective. The right-of-use assets largely comprise leases for offices and distribution centers:

SEKm	
Right-of-use asset	3,694
Non-current financial lease liabilities	2,990
Current financial lease liabilities	694
Provisions (reclassification to right-of-use asset)	26
Prepaid and accrued lease payments (reclassification to right-of-use asset)	36

Essity assesses that IFRS 16 will have a slightly positive impact on EBITA and a slightly negative impact on financial items. Total assets will increase as a result of an increase in non-current assets and net debt.

Reconciliation of minimum lease payments according to IAS 17 and recognized lease liability according to IFRS 16

SEKm	
Operating future minimum lease payments, December 31, 2018, according to Note G2 on page 105	3,967
Present-value calculated with the Group's incremental borrowing rate at January 1, 2019	-486
Excluding short-term leases and leases with a low value	-10
Renewal options that are expected to be utilized	213
Lease liabilities at January 1, 2019	3,684

IFRIC 23 Uncertainty over Income Tax Treatments

In 2017, a new interpretation was issued regarding the recognition of taxes, IFRIC 23. The interpretation clarifies how the recognition and measurement

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

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

USE OF ASSESSMENTS KAA

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

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

In Essity's opinion, the areas that are impacted the most by assumptions and estimates are:

Goodwill, D1 Intangible assets, page 85

Pensions, C5 Remuneration after employment, page 82

Taxes, B5 Income taxes, page 78

Provisions, D6 Other provisions, page 88

Essity's assessments and assumptions are presented in the respective notes.

PRINCIPLES OF CONSOLIDATION

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

Parent Company

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

Subsidiaries

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

Joint arrangements

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

Associates

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint arrangement. Normally, this means that the Group owns between 20% and 50% of

the votes. Accounting for associates is carried out according to the equity method and they are initially measured at cost.

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

TRANSLATION OF FOREIGN CURRENCY

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

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

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

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

TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCY

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

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

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

GOVERNMENT GRANTS

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

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

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

The Annual Report refers to a number of performance measures not defined in IFRS. These performance measures are used to assist investors

and company management to analyze the company's operations and objectives. These non-IFRS measures may differ from similar terms used by other companies.

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

CALCULATION OF PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

RETURN MEASURES			
Return is a financial term that describes how much the value of an asset changes from an earlier point in time			
Non-IFRS performance measure	Description	Reason for use of the measure	
Return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/ EBITA as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations.	
Adjusted return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/ EBITA, excluding items affecting comparability, as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter, excluding items affecting comparability, multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations, excluding items affecting comparability.	
SEKm	2018	2017	2016
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE			
EBITA	11,560	12,550	9,347
Items affecting comparability	1,375	855	2,645
Adjusted EBITA	12,935	13,405	11,992
Average capital employed	107,575	90,167	73,145
Adjusted return on capital employed, ROCE	12.0%	14.9%	16.4%

CAPITAL MEASURES			
Shows how capital is utilized and the company's financial strength			
Non-IFRS performance measure	Description	Reason for use of the measure	
Return on equity	For the Group, return on equity is calculated as profit for the period as a percentage of average equity.	Shows, from a shareholder perspective, the return that is generated on the owners' capital that is invested in the company.	
Adjusted return on equity	For the Group, adjusted return on equity is calculated as profit for the period, excluding items affecting comparability, as a percentage of average equity.	Shows, from a shareholder perspective, the return excluding items affecting comparability that is generated on the owners' capital that is invested in the company.	
Equity	The equity reported in the consolidated balance sheet consists of taxed equity increased by the equity portion of the Group's untaxed reserves and non-controlling interests. The deferred tax liability in untaxed reserves has been calculated on the basis of the corporate tax rate that has been approved and will take effect given that the reserves are expected to be realized.	Equity is the difference between the Group's assets and liabilities, which corresponds to the Group's equity contributed by owners and the Group's accumulated profits.	
Equity per share	Equity in relation to the average number of shares outstanding that exist in Essity Aktiebolag (publ).	A measure of the amount of equity that exists per share and is used for measuring the share against the share price.	
Equity/assets ratio	Equity expressed as a percentage of total assets.	A traditional measure for showing financial risk, expressing the percentage of total assets that is financed by the owners.	
Capital employed	The Group's and business areas' capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.	This measure shows the amount of total capital that is used in the operations and is thus one of the components for measuring the return from operations.	
SEKm	2018	2017	2016
CAPITAL EMPLOYED			
Total assets	154,266	147,016	114,284
Financial assets	-5,181	-6,912	-6,973
Non-current, non-interest-bearing liabilities	-9,037	-8,650	-5,399
Current, non-interest-bearing liabilities	-30,745	-29,417	-27,159
Capital employed	109,303	102,037	74,753
CAPITAL EMPLOYED			
Personal Care	41,768	39,447	13,665
Consumer Tissue	44,915	43,569	40,082
Professional Hygiene	22,153	20,034	21,253
Other	467	-1,013	-247
Capital employed	109,303	102,037	74,753
Non-IFRS performance measure	Description	Reason for use of the measure	
Capital turnover	Net sales for the year divided by average capital employed.	Shows in a clear manner how effectively capital is employed. Together with sales growth and the operating margin, the capital turnover ratio is a key measure for monitoring value creation.	
Working capital	The Group's and business areas' working capital is calculated as current operating receivables less current operating liabilities.	This measure shows how much working capital that is tied up in the operations and can be put in relation to sales to understand how effectively tied-up working capital is used.	
SEKm	2018	2017	2016
WORKING CAPITAL			
Inventories	15,234	13,739	10,944
Trade receivables	18,687	17,607	15,843
Other current receivables	2,599	2,549	2,390
Trade payables	-15,911	-14,748	-12,972
Other current liabilities	-12,792	-12,569	-11,863
Other	-249	-677	-199
Working capital	7,568	5,901	4,143

CAPITAL MEASURES, cont.		Shows how capital is utilized and the company's financial strength		
Non-IFRS performance measure	Description	Reason for use of the measure		
Net debt	The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less pension assets, cash and cash equivalents and interest-bearing current and non-current receivables.	Net debt is the most relevant measure for showing the company's total debt financing.		
SEKm		2018	2017	2016
NET DEBT				
Surplus in funded pension plans		1,117	1,148	335
Non-current financial assets		634	552	717
Current financial assets		422	1,105	1,677
Cash and cash equivalents		3,008	4,107	4,244
Financial assets		5,181	6,912	6,973
Non-current financial liabilities		43,500	47,637	31,299
Provisions for pensions		5,258	4,541	5,273
Current financial liabilities		10,827	7,201	5,574
Financial liabilities		59,585	59,379	42,146
Net debt		54,404	52,467	35,173
Non-IFRS performance measure	Description	Reason for use of the measure		
Debt/equity ratio	Expressed as net debt in relation to equity.	Helps show financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.		
Debt payment capacity	Expressed as cash surplus in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt.		
Net debt/EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA.	A financial measure that shows the company's capacity to repay its debt.		
Net debt/Adjusted EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA, excluding items affecting comparability.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.		
Interest coverage ratio	Calculated according to the net method where operating profit is divided by financial items.	This ratio indicates a company's ability to cover its interest expenses.		
PERFORMANCE MEASURES		Various types of performance measures and margin measures expressed as a percentage of sales		
Non-IFRS performance measure	Description	Reason for use of the measure		
Organic net sales	The change in total organic sales for the period compared with the preceding period excluding exchange rate effects and effects from acquisitions and disposals.	This measure is of major importance for management in its monitoring of underlying net sales driven by changes in volume, price and product mix for comparable units between different periods.		
SEKm		2018	2017	2016
ORGANIC NET SALES				
Personal Care				
Organic net sales		1,213	586	865
Exchange rate effects		1,173	48	-1,313
Acquisitions/Divestments		2,371	6,301	-245
Recognized change		4,757	6,935	-693
Consumer Tissue				
Organic net sales		1,089	231	1,110
Exchange rate effects		1,832	223	-1,207
Acquisitions/Divestments		190	0	0
Recognized change		3,111	454	-97
Professional Hygiene				
Organic net sales		516	411	708
Exchange rate effects		780	137	-168
Acquisitions/Divestments		22	150	2,934
Recognized change		1,318	698	3,474
Group				
Organic net sales		2,868	1,169	2,718
Exchange rate effects		3,785	406	-2,688
Acquisitions/Divestments		2,582	6,452	2,689
Recognized change		9,235	8,027	2,719
ORGANIC NET SALES, %		2018	2017	2016
Previous period sales		109,265	101,238	98,519
Organic net sales		2,868	1,169	2,718
Total organic sales for the period		112,133	102,407	101,237
Organic net sales, %		2.6%	1%	3%

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

SEKm	2018	2017	2016
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets/EBITDA.			
Operating profit	10,759	11,905	9,008
Amortization of acquisition-related intangible assets	732	560	159
Depreciation/amortization	5,443	5,162	4,906
Items affecting comparability, depreciation/amortization	0	2	79
Impairment	19	0	0
Items affecting comparability, impairment	445	301	377
Items affecting comparability, impairment of acquisition-related intangible assets	69	85	180
EBITDA	17,467	18,015	14,709
Items affecting comparability excluding depreciation/amortization and impairment	930	554	2,189
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets/EBITDA.	18,397	18,569	16,898
SEKm	2018	2017	2016
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA			
Operating profit	10,759	11,905	9,008
Amortization of acquisition-related intangible assets	732	560	159
Items affecting comparability, amortization of acquisition-related intangible assets	69	85	180
Operating profit before amortization of acquisition-related intangible assets/EBITA	11,560	12,550	9,347
EBITA margin	9.8%	11.5%	9.2%
Items affecting comparability, cost of goods sold	1,437	509	532
Items affecting comparability, sales, general and administration	-62	346	2,113
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA	12,935	13,405	11,992
Adjusted EBITA margin	10.9%	12.3%	11.8%

Non-IFRS performance measure	Description	Reason for use of the measure
Items affecting comparability	Under items affecting comparability, Essity includes costs in connection with acquisitions, restructuring, impairment and other specific events. The latter item includes items not covered by acquisitions, restructuring and impairment but which are relevant when comparing earnings for one period with those of another. The item "Other specific events" is specified in Note B3 Operating expenses on page 77.	Separate reporting of items affecting comparability between periods provides a better understanding of the company's underlying operating activities.
Restructuring costs	Costs for impairment together with headcount reductions 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		
ADJUSTED OPERATING PROFIT		
Operating profit	10,759	11,905
Items affecting comparability	1,444	940
Adjusted operating profit	12,203	12,845
Adjusted operating margin	10.3%	11.8%
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 operating 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.
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		
ADJUSTED TAX		
Tax	-1,050	-1,938
Tax relating to items affecting comparability	-440	-253
Adjusted tax	-1,490	-2,191
Adjusted profit for the period	Profit for the period after deducting items affecting comparability.	Shows the period's total underlying earnings capacity excluding items affecting comparability.
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. The measure is a good complement to enable comparison of earnings per share with other companies, regardless of whether business activities are based on acquisitions or organic growth.

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		2018	2017	2016
OPERATING CASH FLOW				
Personal Care				
Operating cash surplus		7,821	7,238	5,314
Change in working capital		-410	-237	289
Current capital expenditures		-1,328	-1,282	-805
Restructuring costs, etc.		-271	-266	-75
Operating cash flow		5,812	5,453	4,723
Consumer Tissue				
Operating cash surplus		5,612	6,163	6,455
Change in working capital		94	-425	891
Current capital expenditures		-1,770	-1,749	-1,892
Restructuring costs, etc.		-245	-139	-255
Operating cash flow		3,691	3,850	5,199
Professional Hygiene				
Operating cash surplus		5,630	5,649	5,515
Change in working capital		-565	73	-30
Current capital expenditures		-1,022	-719	-1,267
Restructuring costs, etc.		-365	-592	-83
Operating cash flow		3,678	4,411	4,135
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 the 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. NET SALES – REVENUES FROM CONTRACTS WITH CUSTOMERS

AP ACCOUNTING POLICIES AND KEY ESTIMATES AND ASSESSMENTS

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

Revenue recognition

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

Performance obligations and timing of revenue recognition

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

Determination of transaction price

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

Volume discounts are calculated by assessing the probable discount outcome and making provisions continuously throughout the year every time

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

Trade receivables

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

Contract liabilities

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

Assets that have arisen from expenses to fulfill contracts with customers

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

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

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

B1. REVENUE FROM CONTRACTS WITH CUSTOMERS, CONT.

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

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total, Group
2017 fiscal year¹⁾					
Revenue from contracts with customers					
Sale of finished products	40,580	42,014	26,696	-35	109,255
Sale of services	6		4		10
IS Total revenues from contracts with customers	40,586	42,014	26,700	-35	109,265

Geographic markets					
Europe	23,532	26,439	11,422		61,393
North America	4,200	38	12,122		16,360
Latin America	7,077	4,916	1,423		13,416
Asia	4,224	10,474	1,513		16,211
Other	1,553	147	220	-35	1,885
IS Total revenues from contracts with customers	40,586	42,014	26,700	-35	109,265

Product category					
Incontinence Products	17,885				17,885
Baby Care	8,906				8,906
Feminine Care	6,658				6,658
Medical Solutions	6,301				6,301
Consumer Tissue		42,014			42,014
Professional Hygiene			26,700		26,700
Other	836			-35	801
IS Total revenues from contracts with customers	40,586	42,014	26,700	-35	109,265

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

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total, Group
2016 fiscal year¹⁾					
Revenue from contracts with customers					
Sale of finished products	33,646	41,560	25,996	26	101,228
Sale of services	5	-	5	-	10
IS Total revenues from contracts with customers	33,651	41,560	26,001	26	101,238

Geographic markets					
Europe	19,933	26,777	11,129		57,839
North America	2,617	45	12,133		14,795
Latin America	6,445	4,731	1,255		12,431
Asia	3,705	9,862	1,289		14,856
Other	951	145	195	26	1,317
IS Total revenues from contracts with customers	33,651	41,560	26,001	26	101,238

Product category					
Incontinence Products	17,312				17,312
Baby Care	9,126				9,126
Feminine Care	6,440				6,440
Medical Solutions	-				-
Consumer Tissue		41,560			41,560
Professional Hygiene			26,001		26,001
Other	773			26	799
IS Total revenues from contracts with customers	33,651	41,560	26,001	26	101,238

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

Trade receivables and contractual liabilities

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

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

Assets that have arisen from expenses to fulfill contracts with customers

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

¹⁾ Asset included in the acquisition of Wausau.

B2. SEGMENT REPORTING

AP ACCOUNTING PRINCIPLES

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

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

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

Professional Hygiene's offering, with the globally leading brand Tork, comprises complete hygiene solutions, including toilet paper, paper hand towels,

napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, IoT sensor technology as well as service and maintenance. Professional hygiene customers consist of companies and office buildings, universities, healthcare facilities, industries, restaurants, hotels, stadiums and other public venues. Distribution channels for the products consist of distributors and online sales.

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

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

No business segments were aggregated to form the aforementioned segments.

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

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

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

B2. SEGMENT REPORTING, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2017 fiscal year						
REVENUES						
IS TB2:2 Net sales	40,586	42,014	26,700	-35		109,265
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	5,937	4,084	4,004	-620	-	13,405
Amortization of acquisition-related intangible assets	-506	-6	-48	-	-	-560
Adjusted operating profit/loss per operating segment	5,431	4,078	3,956	-620	-	12,845
TB2:1 Items affecting comparability	-457	135	-160	-458	-	-940
IS Operating profit/loss	4,974	4,213	3,796	-1,078	-	11,905
IS Financial income						158
IS Financial expenses						-1,340
IS Tax expense for the period						-1,938
IS Profit for the period						8,785
OTHER DISCLOSURES						
Assets	54,468	58,200	28,076	3,706	-5,407	139,043
BS Participations in joint ventures and associates	273	589	174	26	-	1,062
Unallocated financial assets	-	-	-	6,911	-	6,911
BS Total assets	54,741	58,789	28,250	10,643	-5,407	147,016
Investments/acquisitions	-28,156	-2,974	-894	-185	-	-32,209
Depreciation/amortization	-1,815	-2,134	-1,669	-106	-	-5,724
Expenses, in addition to depreciation/amortization, not matched by payments	48	21	67	-69	-	67
NET SALES BY REGION						
Europe	58%	63%	43%			56%
North America	10%	-	45%			15%
Latin America	18%	12%	5%			12%
Asia	10%	25%	6%			15%
Other	4%	-	1%			2%
Total	100%	100%	100%			100%
Mature markets	63%	56%	82%			65%
Emerging markets	37%	44%	18%			35%
Total	100%	100%	100%			100%
2016 fiscal year						
REVENUES						
IS TB2:2 Net sales	33,651	41,560	26,001	26	-	101,238
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	4,283	4,450	3,836	-577	-	11,992
Amortization of acquisition-related intangible assets	-28	-68	-63	-	-	-159
Adjusted operating profit/loss per operating segment	4,255	4,382	3,773	-577	-	11,833
TB2:1 Items affecting comparability	-1,011	-944	-871	1	-	-2,825
IS Operating profit/loss	3,244	3,438	2,902	-576	-	9,008
IS Financial income						202
IS Financial expenses						-1,037
IS Tax expense for the period						-3,931
IS Profit for the period						4,242
OTHER DISCLOSURES						
Assets	22,483	55,180	29,905	3,305	-4,658	106,215
BS Participations in joint ventures and associates	346	599	196	-45	-	1,096
Unallocated financial assets				6,973		6,973
BS Total assets	22,829	55,779	30,101	10,233	-4,658	114,284
Investments/acquisitions	-2,207	-2,420	-7,989	-313	-	-12,929
Depreciation/amortization	-1,077	-2,040	-1,702	-87	-	-4,906
Expenses, in addition to depreciation/amortization, not matched by payments	8	32	17	-38	-	19
NET SALES BY REGION						
Europe	59%	65%	43%			57%
North America	8%	-	46%			15%
Latin America	19%	11%	5%			12%
Asia	11%	24%	5%			15%
Other	3%	-	1%			1%
Total	100%	100%	100%			100%
Mature markets	59%	58%	84%			65%
Emerging markets	41%	42%	16%			35%
Total	100%	100%	100%			100%

B2. SEGMENT REPORTING, CONT.**TB2-1** Items affecting comparability allocated by segment

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

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

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

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

B2b. SEGMENT REPORTING, CONT.

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

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

B2c.SEGMENT REPORTING, CONT.

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

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

B3. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function

SEKm	2018	2017	2016
IS Cost of goods sold	-85,058	-76,899	-72,438
IS Sales, general and administration	-20,570	-19,130	-16,965
IS Amortization of acquisition-related intangible assets	-732	-560	-159
IS TB3:1 Items affecting comparability	-1,444	-940	-2,825
Total	-107,804	-97,529	-92,387

Refer also to page 130 for a description of costs.

Operating expenses by type of cost

SEKm	Note	2018	2017	2016
TB3:2 Other income		897	1,045	970
Change in inventory of finished products and products in progress ¹⁾		196	172	-82
Raw materials and consumables ¹⁾		-43,771	-38,191	-36,442
Personnel costs ¹⁾	C1	-22,021	-20,142	-17,983
TB3:3 Other operating expenses ¹⁾		-36,412	-34,444	-33,242
Amortization of intangible assets ¹⁾	D1	-1,049	-853	-380
Depreciation of property, plant and equipment ¹⁾	D2	-5,126	-4,871	-4,764
Impairment of intangible assets ¹⁾	D1	-105	-132	-137
Impairment of property, plant and equipment ¹⁾	D2	-428	-254	-420
Share in profits of associates ¹⁾		-278	-	-
Revaluation of previously owned shares in associates ¹⁾	F6	225	72	-
Gain on divestment ^{1) 2)}		68	69	93
Total		-107,804	-97,529	-92,387

¹⁾ Including items affecting comparability.

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

TB3:1 Items affecting comparability

Distribution of items affecting comparability by type of cost

SEKm	2018	2017	2016
Impairment of inventory of finished products and products in progress	-61	-4	-156
Raw materials and consumables	-	-	-102
Personnel costs	-700	-69	-76
Other operating expenses	-183	-620	-1,948
Amortization of intangible assets	-	-2	-43
Depreciation of property, plant and equipment	-	-	-36
Impairment of intangible assets	-105	-132	-137
Impairment of property, plant and equipment	-410	-254	-420
Impairment losses recognized in associates	-278	-	-
Revaluation of previously owned shares in associates	225	72	-
Gain on divestment	68	69	93
Total	-1,444	-940	-2,825

Distribution of items affecting comparability

SEKm	2018
Costs for restructuring measures at production facilities of Professional Hygiene and Consumer Tissue	-1,222
Impairment in the associate Asaleo Care Ltd.	-278
Increase in participations in joint venture in Latin America	165
Dissolution of reserve for foreign tax	288
Restructuring costs relating to the Group-wide savings program	-131
Other	-266
Total	-1,444

Distribution of items affecting comparability, previous periods

SEKm	2017
Costs of split of SCA Group 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

SEKm	2016
Costs for legal disputes	-1,086
Costs for closure of tissue production plants in Spain and France	-757
Costs for closure of operation in India	-374
Costs for closure of baby diaper operation in Mexico	-174
Costs in conjunction with the acquisition of Wausau Paper Corp.	-204
Transaction costs BSN medical	-143
Other	-87
Total	-2,825

TB3:2 Other income

SEKm	2018	2017	2016
Sales not included in core operations	897	1,045	970
Total	897	1,045	970

Other revenue 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.

TB3:3 Distribution of other operating expenses

SEKm	2018	2017	2016
Transport expenses	-8,290	-7,425	-7,120
Energy costs ¹⁾	-4,775	-4,498	-4,448
Purchased finished goods for resale	-5,144	-5,053	-3,739
Marketing costs	-6,031	-5,777	-5,504
Repairs and maintenance	-2,546	-2,436	-2,537
IT, telephony and lease of premises	-1,633	-1,380	-1,445
Other operating expenses, production	-3,919	-3,671	-3,291
Other operating expenses, distribution, sales and administration	-3,674	-3,644	-3,090
Other	-400	-560	-2,068
Total	-36,412	-34,444	-33,242

¹⁾ After deduction for revenues from energy in the amount of SEK 327m (227; 194).

Other disclosures

Exchange rate effects had a negative impact of SEK -189m (-10; -97) on operating profit. Government grants received reduced operating expenses by SEK 55m (65; 41). Costs for research and development amounted to SEK -1,320m (-1,239; -1,211) during the period.

B4. AUDITING EXPENSES

Auditing expenses

SEKm	2018	2017	2016
EY			
Audit assignments	-64	-58	-49
Auditing activities other than the audit assignment	-2	-4	-
Tax consultancy services	-1	-1	-
Other assignments	-3	-2	-4
Total EY	-70	-65	-53
Other auditors			
Audit assignments	-17	-19	-18
Auditing activities other than the audit assignment	-	-	-1
Tax consultancy services	-5	-2	-16
Other assignments	-9	-3	-13
Total other auditors	-31	-24	-48
Total	-101	-89	-101

B5. INCOME TAXES

AP ACCOUNTING PRINCIPLES

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

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

Deferred tax is calculated based on temporary differences between the carrying amounts and the taxable values of assets and liabilities and for tax loss carryforwards and other unutilized tax deductions in so far as it is probable that these can be utilized against future taxable profits. Deferred taxes are measured in the balance sheet at their nominal amount and based on the tax rates enacted or substantively enacted on the balance sheet date. Deferred

tax is not calculated on the initial recognition of goodwill or when an asset or liability is recognized for the first time, provided that the asset or liability is not attributable to a business combination. Essity does not recognize any deferred tax liability regarding temporary differences on undistributed earnings in holding in subsidiaries, joint ventures or associates, since Essity can control the reversal of the temporary differences and it is probable that such a reversal will not take place in the foreseeable future.

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

temporary differences. Accordingly, a changed assessment of the probability of future taxable profits could have a positive or negative effect.

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

Tax expense

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

Explanation of tax expense

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

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

¹⁾ The effects are principally attributable to financing of the operations in the US, Germany, France and Belgium. For 2017, the effects relate to financing of the US business and include non-recurring effects of the restructuring of debt from the Netherlands to the US.

²⁾ The effects of acquisitions and divestments relate essentially to acquisitions and the revaluation of existing holdings in operations pertaining to Peru and Bolivia.

³⁾ Other permanent effects include, in addition to a number of items of low value, a non-deductible share in profit in Asaleo Care of SEK 97m primarily attributable to an impairment of assets, and dissolution effects of tax on non-current assets of SEK -57m. For 2017, the item includes non-deductible costs for tax on non-current assets of SEK 67m that arose in connection with the split of the SCA Group. The year 2016 relates primarily to non-deductible costs for ongoing competition cases.

⁴⁾ Taxes attributable to prior periods relate mainly to the effect of a tax dispute in Sweden totaling SEK -1,110m and a tax dispute in Denmark totaling SEK -417m in which the final rulings were in Essity's favor. In 2016, a provision of SEK 1,223m was recognized for costs related to the tax dispute in Sweden.

⁵⁾ The change in value of deferred tax assets relates mainly to uncapitalized tax loss carryforwards in Brazil of SEK 98m and in Mexico of SEK 41m, as well as the increase in a tax credit in Poland of SEK -109m. The change in 2017 relates mainly to the revaluation of loss carryforwards in the US of SEK 139m and in Brazil of SEK 156m. The change in 2016 relates mainly to the revaluation of loss carryforwards in Spain of SEK 227m, in Brazil of SEK 185m and in India of SEK 213m.

⁶⁾ Effects relating to changed tax rates are attributable to the revaluation of deferred taxes, especially in Sweden, France and the UK. For 2017, the effects are primarily attributable to the revaluation of deferred taxes in the US.

B5. INCOME TAXES, CONT.

Current tax liability

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

TB5:1 Tax by country

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

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

TB5:2 Deferred tax liability

Deferred tax liability (+), tax asset (-)					
SEKm	Value, January 1	Deferred tax expense	Other changes ²⁾	Translation differences	Value, December 31
Non-current intangible assets	5,542	46	2	254	5,844
Property, plant and equipment	3,392	-127	-10	171	3,426
Non-current financial assets	-116	128	-125	-8	-121
Current assets	-349	-8	-6	-28	-391
Provisions	-493	-151	-50	-42	-736
Liabilities	-974	-36	29	-9	-990
Tax credits and tax loss carry-forwards	-2,289	563	-7	-83	-1,816
Other	145	-248	0	1	-102
BS Total¹⁾	4,858	167	-167	256	5,114

¹⁾ The net closing deferred tax liability comprises deferred tax assets of SEK 2,158m (2,232; 1,457) and deferred tax liabilities of SEK 7,272m (7,090; 3,872).

²⁾ Other changes mainly include deferred tax recognized directly in other comprehensive income within equity according to IAS 19 of SEK -201m and IFRS 9 of SEK 21m.

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

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

Tax loss carryforwards

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

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

Tax loss carryforwards, gross, for which no deferred tax assets were recognized, SEKm			
Year of maturity	2018	2017	2016
Within 1 year	48	325	85
2 years	305	136	917
3 years	17	67	1
4 years	100	28	1
5 years or more	1,499	1,143	988
Indefinite life	4,501	4,552	2,656
Total	6,470	6,251	4,648

C. EMPLOYEES

C1. PERSONNEL COSTS

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

Personnel costs				
SEKm	Note	2018	2017	2016
Salaries and remuneration		-15,403	-14,562	-12,801
TC3:1 of which Executive Management Team		-124	-126	-131
of which Board	C4	-9	-9	-8
Pension costs		-1,433	-1,193	-1,208
of which defined benefit pension costs	C5	-528	-425	-541
of which other pension costs		-905	-768	-667
Other social security costs		-3,594	-3,213	-2,840
Other personnel costs		-1,591	-1,174	-1,134
Total¹⁾		-22,021	-20,142	-17,983

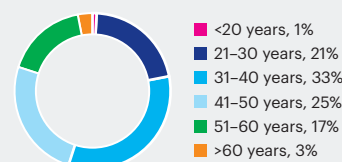
¹⁾ Costs for implemented efficiency-enhancement activities of SEK -700m (-69; -67) are included in total personnel costs.

C2. PERSONNEL DATA

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

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

Age distribution 2018



C3. REMUNERATION OF SENIOR EXECUTIVES

AP ACCOUNTING PRINCIPLES

Recognition of variable remuneration

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

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

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

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

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

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

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

Annual General Meeting guidelines for remuneration of senior executives

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

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

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

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

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

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

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Company's application of guidelines

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

Fixed salary

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

Variable remuneration

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

Outcome, variable remuneration

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

Other benefits

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

TC3:1 Remuneration and other benefits during the year 2018

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

¹⁾ Variable remuneration covers the 2018 fiscal year but is paid in 2019.

²⁾ Of which LTI program SEK 6,500,000.

³⁾ Includes remuneration to the former Head of Sustainability and Public Affairs, who as a result of the restructuring of the Group is no longer a member of the Executive Management Team.

⁴⁾ Of which LTI program SEK 36,502,537.

Pension costs 2018¹⁾

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

¹⁾ The pension costs pertain to the costs that affected profit for 2018, excluding special payroll tax.

²⁾ Outstanding pension obligations amount to SEK 19,933,280.

³⁾ Outstanding pension obligations amount to SEK 80,261,840.

Pension

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

Remuneration of senior executives

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

Notice period and severance pay

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

Preparation and decision process for remuneration

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

The Board's proposal for new guidelines

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

TC3:1 Remuneration and other benefits during the year 2017

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

¹⁾ Variable remuneration covers the 2017 fiscal year but is paid in 2018.

²⁾ Of which LTI program SEK 6,000,000.

³⁾ Of which LTI program SEK 27,962,950.

Pension costs 2017¹⁾

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

¹⁾ The pension costs pertain to the costs that affected profit for 2017, excluding special payroll tax.

²⁾ Outstanding pension obligations amount to SEK 18,858,000.

³⁾ Outstanding pension obligations amount to SEK 77,684,265.

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

TC3:1 Remuneration and other benefits during the year 2016

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

¹⁾ Variable remuneration covers the 2016 fiscal year but is paid in 2017.

²⁾ Of which LTI program SEK 5,500,000.

³⁾ Of which LTI program SEK 29,225,605.

Pension costs 2016¹⁾

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

¹⁾ The pension costs pertain to the costs that affected profit for 2016, excluding special payroll tax.

²⁾ Outstanding pension obligations amount to SEK 15,741,000.

³⁾ Outstanding pension obligations amount to SEK 131,665,322.

Obligations in relation to former presidents and CEOs

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

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

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

neration to non-executive Board members of Essity Aktiebolag (publ) refers to the fees approved at the AGM on April 4, 2018 for the period until the next AGM in April 2019. No remuneration is paid to the President and CEO and other employees.

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

C5. REMUNERATION AFTER EMPLOYMENT

AP ACCOUNTING PRINCIPLES

Defined benefit pension plans

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

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

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, meaning plans with assets exceeding obligations, are recognized as a financial non-current

asset provided they are not limited by the "asset ceiling" under IAS 19. Other pension plans, which are not fully funded or unfunded, are recognized as Provisions for pensions.

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

Defined contribution pension plans

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

Other post-retirement benefits

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

Severance pay

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

C5. REMUNERATION AFTER EMPLOYMENT, CONT.

CAA KEY ASSESSMENTS AND ASSUMPTIONS

The calculation of recognized expenses and provisions for defined benefit pension plans, where the size of the future compensation is unknown and payment will occur far in the future, is dependent on assumptions and assessments. Key assumptions and assessments include the discount rate, future salary increases, inflation and life expectancy. Essity determines the discount rate based primarily on AA-rated corporate bonds issued in the currency in which the payments will be made that match the duration of the

obligations. If no such corporate bonds are available, government bonds or mortgage bonds are used. Inflation assumptions are based on a combination of central bank targets, implicit market expectations and long-term analyst forecasts. Assumptions regarding salary increases are based on market expectations and market research forecasts. Key actuarial assumptions are presented in **TC5:5**. The sensitivity of the recognized provision with respect to key actuarial assumptions is described in **TC5:6**.

Provisions for pensions and similar obligations

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

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

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

TC5:1 Provisions for pensions and similar obligations per country

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

Netherlands

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

United Kingdom

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

Sweden

In Sweden, the defined benefit obligation is mainly covered by the ITP2 plan and executive pensions. The ITP2 plan (supplementary pensions for salaried employees) encompasses employees born before 1979 and is a defined benefit

plan that provides retirement pension based on final salary. The ITP2 plan provides pension as a percentage of various salary intervals. The ITP2 plan is safeguarded by a fund, and the company may compensate itself using any surpluses in the plan assets. The pension plans for executives are largely retirement and beneficiaries' pension plans based on final salary and are closed to new participants and the liability largely comprises paid-up pension policies or pensions in payment. The pension plans for executives are largely unfunded and are credit-insured with PRI Pensionsgaranti.

Germany

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

US

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

Costs for the period for defined benefit plans

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

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

TC5:2 Defined benefit obligations

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

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

TC5:3 Plan assets

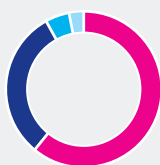
SEKm	2018	2017	2016
Fair value, January 1	-30,418	-26,363	-23,839
Interest income	-747	-740	-843
Acquisitions and disposals	-	-661	-1,473
Contributions by plan participants	-12	-11	-13
Contributions by the employer	-1,019	-1,367	-959
Benefits paid, excluding settlements	1,368	1,110	1,054
Benefits paid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

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



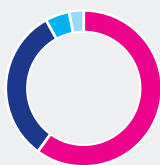
- Shares and mutual funds, 51%
- Interest-bearing securities, 39%
- Properties, real estate, 7%
- Other, 3%

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



- Shares and mutual funds, 61%
- Interest-bearing securities, 39%
- Properties, real estate, 5%
- Other, 3%

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



- Shares and mutual funds, 60%
- Interest-bearing securities, 32%
- Properties, real estate, 5%
- Other, 3%

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

TC5:4 Effect of asset ceiling

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

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

TC5:5 Principal actuarial assumptions

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

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

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

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

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

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

MULTIEMPLOYER PLANS

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

Budgeted contributions

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

D. OPERATING ASSETS AND LIABILITIES

D1. INTANGIBLE ASSETS

AP ACCOUNTING PRINCIPLES

Goodwill

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

Trademarks

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

Licenses, patents and similar rights

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

Customer relations

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

Research and development

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

Impairment testing

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

Emission allowances and costs for carbon dioxide emissions

Essity participates in the European system for emission allowances.

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

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

D1. INTANGIBLE ASSETS, CONT.

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

Intangible assets excluding goodwill

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

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

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. The testing showed that no impairment was needed for 2018, 2017 or 2016. The WACC before tax used in the impairment testing of goodwill is presented in the table below. Sensitivity analyses show that reasonable changes to key parameters do not give rise to any impairment requirement. In addition to annual impairment testing of the cash-generating units,

outlined above under the section Impairment testing, goodwill, trademarks with indefinite useful lives and individual assets are also tested when there is an indication of an impairment need. During the period, intangible assets, mainly attributable to the operating segment Personal Care, were impaired by SEK -105m.

Distribution by operating segment

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

TD1:1 Emission allowances

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

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 includes costs for running-in and start-up. Borrowing costs are included in the cost of investments exceeding SEK 250m that take more than 12 months to complete. Expenses for repairs and maintenance are expensed directly in profit or loss.

Depreciation and impairment

Land is not subject to depreciation. Buildings, machinery and equipment are depreciated on a straight-line basis over the expected useful lives of the assets. If, at the balance sheet date, there is an indication that property, plant and equipment has declined in value, impairment testing is carried out.

Expected useful lives

	Number of years
Pulp and paper mills	10–25
Converting machines, other machinery	7–18
Tools	3–10
Vehicles	4–5
Buildings	15–50
Energy plants	15–30
Computers	3–5
Office equipment	5–10
Land improvements	10–20

Carrying amounts

SEKm	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Accumulated costs	23,255	21,158	20,253	4,276	4,014	3,887	80,511	73,111	71,071	4,970	4,678	3,901
Accumulated amortization	-10,010	-8,800	-8,097	-599	-542	-498	-48,983	-43,710	-41,577	-	-1	-24
Accumulated impairment	-271	-295	-331	-51	-26	-64	-1,392	-1,073	-992	-33	-32	-35
Total	12,974	12,063	11,825	3,626	3,446	3,325	30,136	28,328	28,502	4,937	4,645	3,842
Value, January 1	12,063	11,825	10,979	3,446	3,325	3,429	28,328	28,502	25,220	4,645	3,842	2,774
Investments	102	607	191	22	22	26	1,601	1,394	2,054	4,950	4,170	3,979
Sales and disposals	-20	-17	-12	-46	-5	-11	-90	-78	-107	-18	-1	-
Company acquisitions	79	299	511	71	64	27	145	767	2,290	86	221	68
Company divestments	-	-14	-	-	-1	10	-	-16	-	-	-	-
Reclassifications	1,134	389	505	87	113	-161	3,714	2,779	2,297	-4,895	-3,507	-3,066
Amortization ¹⁾	-793	-730	-707	-42	-47	-44	-4,291	-4,094	-3,989	-	-	-24
Impairment	-23	-65	-159	-30	-11	-102	-372	-178	-127	-3	-	-32
Translation differences	432	-231	517	118	-14	151	1,101	-748	864	172	-80	143
Value, December 31	12,974	12,063	11,825	3,626	3,446	3,325	30,136	28,328	28,502	4,937	4,645	3,842

¹⁾ Included primarily in Cost of goods sold.

Total property, plant and equipment

SEKm	2018	2017	2016
Accumulated costs	113,012	102,961	99,112
Accumulated amortization	-59,592	-53,053	-50,196
Accumulated impairment	-1,747	-1,426	-1,422
Total	51,673	48,482	47,494
Value, January 1	48,482	47,494	42,402
Investments	6,675	6,193	6,250
Sales and disposals	-174	-101	-130
Company acquisitions	381	1,351	2,896
Company divestments	-	-31	10
Reclassifications	40	-226	-425
Amortization ¹⁾	-5,126	-4,871	-4,764
Impairment	-428	-254	-420
Translation differences	1,823	-1,073	1,675
BS Value, December 31	51,673	48,482	47,494

¹⁾ Included primarily in Cost of goods sold.

Impairment losses for the year totaling SEK -428m are mainly related to restructuring measures at production facilities in Professional Hygiene and Consumer Tissue.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 24m (41; 19) and in construction in progress in an amount of SEK 0m (-; 31). The average interest rate used was 5% (5; 10).

Contract obligations relating to the acquisition of fixed assets amounted to SEK 3,563m at year end.

D3. INVENTORIES

AP ACCOUNTING PRINCIPLES

Inventories are measured at the lower of cost and net realizable value. Cost is calculated mainly by applying the first-in, first-out (FIFO) principle or weighted average cost formula. The cost of inventories and work in progress includes raw material costs, direct labor, other direct expenses and production-related overheads, based on a normal capacity utilization.

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

Inventories

SEKm	2018	2017	2016
Raw materials and consumables	3,937	4,162	3,156
Spare parts and supplies	1,656	1,513	1,443
Products in progress	1,546	1,420	1,262
Finished products	8,090	6,641	5,080
Advance payments to suppliers	5	3	3
BS Total	15,234	13,739	10,944

Impairment of inventories amounted to SEK 85m (47; 288), of which SEK 61m (4; 258) was recognized in conjunction with restructuring as an item affecting comparability, refer to Note B3 Operating expenses on page 77.

D4. OTHER CURRENT RECEIVABLES

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

D5. OTHER LIABILITIES

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

TD5:1 Accrued expenses and prepaid income

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

D6. OTHER PROVISIONS

AP ACCOUNTING PRINCIPLES

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

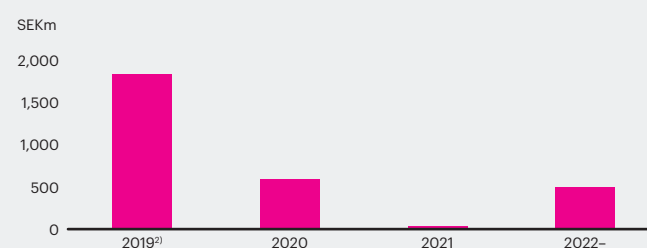
Other provisions 2018

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

Other provisions, previous periods

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

Distribution of other provisions by maturity¹⁾



¹⁾ The timing of provisions totaling SEK 221m cannot be assessed.

²⁾ At the end of January 2019, the Supreme Court in Spain dismissed Essity's appeal regarding breaches of competition law, meaning that Essity must pay fines of EUR 35m, corresponding to SEK 360m, in 2019. The amount has been recognized as a non-current provision in the 2018 year-end accounts but will be reclassified to current liabilities in the first quarter of 2019.

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

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

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

E. CAPITAL STRUCTURE AND FINANCING

E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL

AP ACCOUNTING PRINCIPLES

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

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

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

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

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

Fair value measurement

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

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

Classification and subsequent recognition

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

Amortized cost

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

Fair value through comprehensive income

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

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

Fair value through profit or loss

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

Accounting for derivatives used for hedging purposes

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

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

Financial assets measured at fair value through profit or loss

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

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

Held-to-maturity investments

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

Loan and trade receivables

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

Available-for-sale financial assets

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

Financial liabilities measured at fair value through profit or loss

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

Financial liabilities measured at amortized cost

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

Accounting for derivatives used for hedging purposes

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

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

Financial instruments by category and measurement level

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

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

Measurement levels

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

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

Financial instruments in other notes to the balance sheet

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

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

AP ACCOUNTING PRINCIPLES

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

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

Financial assets, cash and cash equivalents

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

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

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

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

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

E3. TRADE RECEIVABLES

AP ACCOUNTING PRINCIPLES

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

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

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

An impairment of trade receivables due to a possible credit loss impacts Essity's operating profit as a selling cost in profit or loss and as a reduction of trade receivables by increasing the reserve for doubtful receivables in the balance sheet. When the credit loss has been confirmed, the trade receiv-

able is written off against the provision to reserves for doubtful receivables. A credit loss is regarded as confirmed when it has been determined that the customer is unable to fulfill the legal obligation to pay Essity, when debt-collection measures are no longer cost efficient, the customer's operations have ceased or the customer has been declared bankrupt and this process has ended.

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

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

TE3:1 Analysis of credit risk exposure in trade receivables			
SEKm	2018	2017	2016
Trade receivables, not overdue (net)	16,191	15,529	14,175
Trade receivables, overdue (net)			
< 30 days	1,486	1,389	1,161
30–90 days	593	425	276
> 90 days	417	264	231
Trade receivables, overdue (net)	2,496	2,078	1,668
Total	18,687	17,607	15,843

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

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

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

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

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

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

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

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

Financial liabilities			
SEKm	2018	2017	2016
Current financial liabilities			
Amortization within one year	347	269	256
Bond issues	3,005	2,946	-
Derivatives	342	512	604
Loans with maturities of less than one year	6,948	3,305	4,132
Accrued financial expenses	185	169	97
BS Total¹⁾	10,827	7,201	5,089
Non-current financial liabilities			
Bond issues	34,247	35,687	18,708
Derivatives	58	33	23
Other non-current loans with maturities > 1 year < 5 years	6,884	9,876	8,078
Other non-current loans with maturities > 5 years	2,311	2,041	4,490
BS Total	43,500	47,637	31,299
Total financial liabilities	54,327	54,838	36,388
Fair value of financial liabilities	54,434	54,227	36,719

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

Borrowing

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

Bond issues

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

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

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

Commercial paper program¹⁾

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

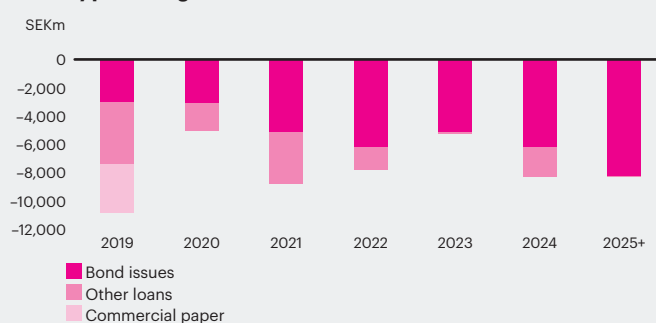
¹⁾ Included in Loans with maturities of less than one year in the Financial liabilities table.

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

Credit facilities

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

Maturity profile of gross debt¹⁾



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

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

E5. LIQUIDITY RISK

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

Liquidity risk

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

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

E6. DERIVATIVES AND HEDGE ACCOUNTING

AP ACCOUNTING PRINCIPLES

Accounting for derivatives used for hedging purposes

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

Cash flow hedges

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

Hedges of net investments in foreign operations

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

Fair value hedges

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

Economic hedges

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

Outstanding derivatives

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

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

Balance sheet

Essity uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how Essity manages these risks, refer to the

section on Risk and risk management on page 33. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2018. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category on page 90.

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

Income statement

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

Sensitivity analysis

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

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

Derivatives with hedge accounting

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

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

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Cash flow hedges

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

Hedging of net investments

Essity has hedged net investments in a number of selected legal entities in order to achieve the desired currency distribution of net debt relative to assets so that performance measures that are important to the company's credit rating can be protected in the long term. The result of hedging

positions affected equity by a total of SEK -122m (-1,968, -437). This result is largely due to hedges of net investments in USD and EUR. In 2018, SEK 0m (0, 0) was recognized in profit or loss as ineffectiveness. The total market value of outstanding hedging transactions at the end of the period was SEK 353m (170; 167). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK -18,794m. The Essity Group's total foreign net investments at year-end amounted to SEK 65,679m. Primarily currency derivatives are used to hedge net investments. Loans in foreign currency (EUR) were also used to hedge net investments in 2018.

Fair value hedges

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

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

Interest rate derivatives – hedging of fair value, SEKm

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

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.**Derivatives with hedge accounting¹⁾**

SEKm	Asset	Liability	Net	Tax	Hedge reserve after tax	Recirculated before tax	Line in the income statement/balance sheet
2018							
Derivatives with hedge accounting in hedge reserve							
Cash flow hedges							
Energy risk	347	-25	322	77	245	-377	³⁾
Currency risk	3	-4	-1	0	0	-	⁴⁾
Total	350	-29	321	77	245		
Derivatives with hedge accounting without hedge reserve							
Hedges of net investments in foreign operations							
Currency risk ²⁾	143	-15	128				
Fair value hedges							
Interest rate risk	489		489				
Total	982	-44	938	77	245		
2017							
Derivatives with hedge accounting in hedge reserve							
Cash flow hedges							
Energy risk	216	-14	202	-50	152	-69	³⁾
Currency risk	33	-15	18	-4	14	23	⁴⁾
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	269	³⁾
Currency risk	6	-6	-	-	-	-14	⁴⁾
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.

³⁾ Cost of goods sold.

⁴⁾ Cost of goods sold, Net sales and Buildings, land, machinery and equipment

The results from hedging of net investments in foreign operations are recognized in the translation reserve, refer to Note E8 Shareholders' equity on page 96. 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 2019. With unchanged exchange rates, profit after tax will be affected in an amount of SEK 0m (neg. 1; pos. 2). 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 increase by SEK 1m (decrease: 15; increase: 2) after tax. The derivatives intended to hedge energy costs in the Group mature during 2019 and 2020. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 245m (pos: 152; pos: 164).

E7. FINANCIAL INCOME AND EXPENSES

Financial income and expenses

SEKm	2018	2017	2016
Results from shares and participations in other companies			
Dividend	2	2	2
Interest income and similar profit items			
Interest income, investments	85	156	186
Other financial income	4	–	14
Total financial income	91	158	202
Interest expenses and similar loss items			
Interest expenses, borrowing	–836	–882	–843
Interest expenses, derivatives	–354	–321	–92
Fair value hedges, unrealized	–8	32	24
Other financial expenses	–50	–169	–126
Total financial expenses	–1,248	–1,340	–1,037
Total	–1,157	–1,182	–835

Other financial income and expenses include an exchange difference of SEK 4m (–70; 14).

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 123m (83; 103) higher/lower. Sensitivity analysis calculations have been performed on the risk to which Essity was exposed at December 31, 2018 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 38.

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 shares 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 totaled SEK 54,899m (49,570; 39,580) at December 31, 2018. The following tables show the distribution and profit for the period.

SEKm	Share capital	TE8:1 Reserves	Retained earnings	Equity attributable to Essity's shareholders	Non-controlling interests	Total equity
Value, January 1, 2018	2,350	3,154	36,785	42,289	7,281	49,570
Effect of changed accounting principle IFRS 9			–7	–7		–7
IS Profit for the period recognized in profit or loss			7,886	7,886	666	8,552
Other comprehensive income for the period						
Items that may not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans ¹⁾			–1,038	–1,038	2	–1,036
Measured at fair value through other comprehensive income		–5		–5		–5
TE8:2 Income tax attributable to components in other comprehensive income		1	175	176		176
		–4	–863	–867	2	–865
Items that have been or may be reclassified subsequently to the income statement						
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		471		471		471
Transferred to profit or loss for the period		–378		–378		–378
Translation differences in foreign operations		1,876		1,876	204	2,080
Gains/losses from hedges of net investments in foreign operations		–122		–122		–122
Other comprehensive income from associates			23	23		23
TE8:2 Income tax attributable to components in other comprehensive income		5	–1	4		4
Other comprehensive income for the period, net of tax		1,848	–841	1,007	206	1,213
Comprehensive income for the period		1,848	7,045	8,893	872	9,765
Private placement to non-controlling interests			3	3	2	5
Transferred to cost of hedged investments		1		1		1
Dividend, SEK 5.75 per share ²⁾			–4,038	–4,038	–397	–4,435
BS Value, December 31	2,350	5,003	39,788	47,141	7,758	54,899

E8. EQUITY, CONT.

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

¹⁾ Including payroll tax.

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

E8. EQUITY, CONT.

TE8:1 Equity, specification of reserves

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

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

²⁾ See also Note E6 Derivatives and hedge accounting on page 93 for details of when gains or losses are expected to be recognized.

³⁾ Transfer to profit or loss of realized exchange gains/losses relating to divested companies is included in the amount of SEK 0m (-19; -13).

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

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

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

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

Transactions with shareholders

Specification of transactions with shareholders

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

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

F. GROUP STRUCTURE

F1. SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Subsidiaries

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

Non-controlling interests

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

List of major subsidiaries

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

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

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

F2. JOINTLY OWNED SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Vinda

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

Familia

Familia is 50% owned by Essity and 49.8% owned by the Gomez family. Essity is considered to have a controlling influence over Familia, despite the

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

Financial information

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

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

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

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

¹⁾ For more information about the companies, refer to the list of major subsidiaries on Page 99.

²⁾ For Familia, items affecting comparability in the amount of SEK 41m (52; -232) are included.

³⁾ Other comprehensive income and the Balance sheets for the 2017 and 2016 fiscal years have been adjusted for Familia.

F3. JOINT VENTURES AND ASSOCIATES

AP ACCOUNTING PRINCIPLES

Joint arrangements

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

Joint ventures

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

venture is Bunzl & Biach G.m.b.H., Vienna, which supplies the business with raw materials.

Associates

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

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

F3. JOINT VENTURES AND ASSOCIATES, CONT.

Carrying amounts of joint ventures and associates

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

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

Joint ventures and associates

Asaleo Care Ltd

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

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

Bunzl & Biach

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

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

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

F3. JOINT VENTURES AND ASSOCIATES, CONT.

TF3:2 Carrying amounts of joint ventures and associates

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

F4. JOINT OPERATIONS

AP ACCOUNTING PRINCIPLES

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

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

Joint operations

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

Uni-Charm Mölnlycke

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

ProNARO

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

Nokianvirran Energia

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

F5. SHARES AND PARTICIPATIONS

Shares and participations

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

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

F6. ACQUISITIONS AND DIVESTMENTS

AP ACCOUNTING PRINCIPLES

Acquisition of subsidiaries

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

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

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

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

Non-controlling interests

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

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

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

Acquisitions in 2018

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

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

Acquisitions in 2017

On December 19, 2016, it was announced that an agreement to acquire BSN medical, a leading medical technology company, had been concluded. BSN medical develops, manufactures, markets and sells products within the areas of wound care, compression therapy and orthopedics. The purchase price for the shares amounts to EUR 1,394m, and takeover of net debt to EUR 1,321m. The acquisition is fully debt-funded. The transaction, which was subject to customary regulatory approvals, was closed on April 3, 2017. Goodwill is justified by the synergies that arise as a result of BSN medical's leading market positions in attractive medical technology product categories, which create a shared future growth platform in combination with

Essity's incontinence business, including the globally leading brand TENA. Furthermore, synergies are generated by being able to utilize a common customer base and sales channels for both businesses, enabling more rapid growth through cross selling. In 2017, restructuring costs amounted to SEK 96m and integration costs to SEK 48m. Costs for the acquisition amounted to SEK 229m, of which SEK 86m was recognized in 2017 and SEK 143m in 2016.

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

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

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

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

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

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

Acquisitions in 2016

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

F6. ACQUISITIONS AND DIVESTMENTS, CONT.

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

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

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

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

Acquired operations

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

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

Specification of confirmed acquisition balance sheet for BSN Medical 2018

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

Adjustment of preliminary acquisition balance sheets for 2018

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

Divestments

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

Assets and liabilities included in divestments

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

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

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE

AP ACCOUNTING PRINCIPLES

Non-current assets held for sale and discontinued operations

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

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

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

Non-current assets held for sale and discontinued operations

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

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

G2. LEASES

AP ACCOUNTING PRINCIPLES

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

Leasing expenses

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

Operating leases, future minimum lease payments

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

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

Finance leases, future minimum lease payments

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

Other disclosures

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

G3. CONTINGENT LIABILITIES AND PLEDGED ASSETS

AP ACCOUNTING PRINCIPLES

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

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

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

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

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

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

G4. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

G5. CHANGES DUE TO NEW ACCOUNTING RULES

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

IFRS 9

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

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

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

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

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

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

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

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

Changed classification upon the transition to IFRS 9

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

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

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

IFRS 15

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

Financial statements, Parent Company

Income statement **IS**

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

Statement of comprehensive income

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

Cash flow statement **CF**

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

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

¹⁾ Dealings of the Parent Company with the Swedish subsidiaries relating to tax are recognized as Change in operating receivables or Change in operating liabilities, respectively.

²⁾ The company's current account is a sub-account and is recognized in the balance sheet as liabilities to Group companies.

Supplementary disclosures

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

Change in liabilities attributable to financing activities

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

Balance sheet **BS**

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

Change in equity (Refer also to Note PC11)

SEKm	Share capital	Statutory reserve	Retained earnings and profit for the period	Total equity
Equity at December 31, 2016	0	0	74,986	74,986
Profit for the period			2,496	2,496
Bonus issue	2,350	0	-2,350	0
Gain from merger			5	5
Capital contribution received			598	598
Equity at December 31, 2017	2,350	0	75,735	78,085
Profit for the period			16,162	16,162
Dividend, SEK 5.75 per share		-	-4,038	-4,038
Equity at December 31, 2018	2,350	0	87,859	90,209

PC. PARENT COMPANY NOTES

PC1. OPERATING PROFIT/LOSS

Operating profit/loss by type of cost

SEKm	Note	2018	2017
Other operating income		192	367
Other external costs		-396	-597
Personnel and Board costs		-340	-334
Amortization of capitalized development costs	PC4	0	0
Depreciation of tangible fixed assets	PC5	-2	-2
IS Total		-546	-566

The item "Other external costs" includes primarily consultancy fees, travel expenses, lease expenses and management costs.

AUDITING EXPENSES

Remuneration to auditors can be specified as follows:

SEKm	2018	2017
EY		
Audit assignments	-13	-12
Auditing activities other than the audit assignment	0	-1
Tax consultancy services	0	-
Other assignments	-2	-
Total	-15	-13

Leasing

AP ACCOUNTING PRINCIPLES

The company recognizes all leases as operating leases.

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

SEKm	2018	2017
Within 1 year	24	24
Between 2 and 5 years	7	29
Later than 5 years	-	-
Total	31	53

Cost for the period for leasing of assets amounted to SEK -25m (-25). Leased assets comprise means of transportation and office premises.

PC2. PERSONNEL AND BOARD COSTS

Salaries and remuneration

SEKm	2018	2017
Board of Directors ¹⁾ , President, Executive Vice President and senior executives (4 (5))	-67	-67
of which variable remuneration	-22	-28
Other employees	-118	-134
Total	-185	-201

¹⁾ Board fees decided by the Annual General Meeting amounted to SEK -9m (-9). For further information, see Notes C1-C4 on page 80.

Social security costs

SEKm	2018	2017
Total social security costs	-147	-124
of which pension costs ²⁾	-89	-61

²⁾ Of the Parent Company's pension costs, SEK -14m (-16) pertains to the Board, President, Executive Vice President and senior executives. Former Presidents and Executive Vice Presidents and their survivors are also included. The company's outstanding pension obligations to these individuals amount to SEK 46m (51).

Pension costs

SEKm	2018	2017
Self-administered pension plans		
Costs excluding interest expense	-38	-49
Interest expense (recognized in personnel costs)	-5	-6
Sub-total	-43	-55
Retirement through insurance		
Insurance premiums	-31	-18
Other	4	32
Sub-total	-70	-41
Policyholder tax	0	0
Special payroll tax on pension costs	-16	-17
Cost of credit insurance, etc.	-3	-3
Pension costs for the period	-89	-61

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK -2m (-2). Premiums for 2019 are expected to amount to SEK 2m (see also Provisions for pensions in this note). Personnel costs also include other personnel costs in the amount of SEK -8m (-8).

Average number of employees

	2018	2017
Sweden	110	116
of whom women, %	49	49

Breakdown of employees by age groups, %

2018	21-30 years	31-40 years	41-50 years	51-60 years	61+ years
	1	22	40	28	9

Women comprised 50% (46) of Board members and 25% (36) of senior executives.

PC2. PERSONNEL AND BOARD COSTS, CONT.

Provisions for pensions

AP ACCOUNTING PRINCIPLES

The Parent Company applies the regulations in the Pension Obligations Vesting Act (Tryggandelagen). Recognition complies with the simplification rule for defined benefit pension plans in accordance with the voluntary exception in RFR 2 regarding IAS 19. The main difference compared with IAS 19 is that Swedish GAAP disregards future increases in salaries and pensions when calculating the present value of the pension obligation. This present value includes, however, a special reserve for future payments of pension supplements indexed for inflation. Both defined contribution and defined benefit plans exist in the Parent Company.

PRI Pensions

Pension liabilities pertaining to PRI pensions have been secured through a common Swedish Essity pension fund. The market value of the Parent Company's portion of the foundation's assets at December 31, 2018 amounted to SEK 191m (151). In 2018, compensation was received in the amount of SEK 6m (-). The capital value of the pension obligations at December 31, 2018 amounted to SEK 159m (134). Pension payments of SEK -5m (-6) were made in 2018. In 2018, the assets exceeded pension obligations by SEK 32m (17).

Other pension obligations

The Group's Note C3 Remuneration of senior executives on page 80 describes the other defined benefit pension plans of the Parent Company. The table below shows the change between the years.

Capital value of pension obligations relating to self-administered pension plans		
SEKm	2018	2017
Value, January 1	878	839
Compensation received for assumed pension obligations	-	21
Costs excluding interest expense	38	49
Interest expense (recognized in personnel costs)	5	6
Payment of pensions	-48	-37
BS Value, December 31	873	878

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 0.6% (0.7). The defined benefit obligations are calculated based on salary levels valid on the respective balance sheet dates. All of the company's pension obligations were transferred from Svenska Cellulosa Aktiebolaget SCA on December 31, 2016. The pension obligations were formerly transferred when the County Administrative Board granted its approval in 2017. Next year's expected payments for the above defined benefit pension plans amount to SEK 52m. Part of the pension obligations are covered by capital redemption policies. The capital redemption policies are reported as other non-current receivables in the balance sheet.

PC3. INCOME TAXES

AP ACCOUNTING PRINCIPLES

Due to the links between accounting and taxation, the deferred tax liability on untaxed reserves is recognized in the company's annual accounts as a component of untaxed reserves.

Tax expense

Tax expense (+), tax income (-)		
SEKm	2018	2017
Deferred tax	940	-816
Current tax	-	-
IS Total	940	-816

Explanation of tax expense

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

Reconciliation	2018		2017	
	SEKm	%	SEKm	%
IS Profit before tax	17,102		1,680	
IS Tax expense/income	940	5.5	-816	-48.5
Expected tax	3,763	22.0	370	22.0
Difference	-2,823	-16.5	-1,186	-70.5
The difference is due to:				
Taxes related to prior periods	0	0.0	-16	-0.9
Non-taxable dividends from subsidiaries	-3,576	-20.9	-934	-55.6
Non-taxable Group contributions from subsidiaries ¹⁾	-	-	-529	-31.5
Non-deductible Group contributions to subsidiaries ¹⁾	713	4.2	13	0.8
Other non-taxable/non-deductible items	30	0.2	280	16.7
Changed tax rate	10	0.0	-	-
Total	-2,823	-16.5	-1,186	-70.5

¹⁾ Non-taxable and non-deductible Group contributions relate to repayment from/to the respective subsidiary, which amounts to 78% of the Group contribution.

The Parent Company participates in the Group's tax pooling arrangement and up until 2017, paid the majority of the Group's total Swedish taxes. These were recognized in profit or loss as Group contributions paid and received. The net of paid and received Group contributions per subsidiary amounts to 22% and is the respective subsidiary's share of the tax cost for the Group. As of 2018, another Swedish subsidiary is used to pay the majority of the Group's total Swedish taxes.

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

SEKm	2018	2017
Value, January 1	-4	-
Current tax expense	-	-
Paid tax	0	-4
BS Value, December 31	-4	-4

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

SEKm	2018	2017
Changes in temporary differences	940	-800
Adjustments for prior periods	0	-16
Total	940	-816

Deferred tax assets (-)

SEKm	Value, January 1	Deferred tax expense	Value, December 31
Provisions for pensions	-190	11	-179
Tax loss carryforwards	-1,016	1,014	-2
Other	160	-84	76
BS Total	-1,046	941	-105

Appropriations and untaxed reserves

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

PC4. INTANGIBLE FIXED ASSETS

Capitalized development costs

SEKm	2018	2017
Accumulated costs	0	0
Accumulated amortization	0	0
Residual value according to plan	0	0
Value, January 1	0	0
Investments	-	-
Sales and disposals	-	-
Amortization for the period	0	0
BS Value, December 31	0	0

PC5. TANGIBLE FIXED ASSETS

AP ACCOUNTING PRINCIPLES

Essity Aktiebolag's tangible fixed assets are recognized in accordance with the Group's accounting principles.

Tangible fixed assets		
	Equipment	
SEKm	2018	2017
Accumulated costs	8	7
Accumulated depreciation	-3	-2
Residual value according to plan	5	5
Value, January 1	5	7
Investments	1	0
Sales and disposals	0	-
Depreciation for the period	-1	-2
BS Value, December 31	5	5

PC6. PARTICIPATIONS

AP ACCOUNTING PRINCIPLES

Essity Aktiebolag recognizes all holdings in Group companies at cost after deduction for any accumulated impairment losses.

Participations in Group companies		
	Subsidiaries	
SEKm	2018	2017
Accumulated costs	175,943	168,883
Accumulated impairment	-1,321	-1,269
Carrying amount	174,622	167,614
Value, January 1	167,614	167,601
Investments	30,947	48,882
Divestments	-23,887	-47,600
Impairment for the period	-52	-1,269
BS TPC6:1 Value, December 31	174,622	167,614

During the fiscal year, the company acquired the Group company Lejenbrottet Aktiebolag for SEK 0.2m. Lejenbrottet Aktiebolag also received a capital contribution of SEK 52m. In parallel, impairment was carried out with the corresponding amount. A capital contribution of SEK 30,894m was also made to Essity Group Holding BV. The subsidiary Essity Capital NV was discontinued during the year through voluntary liquidation and its capital was transferred to Essity Aktiebolag.

TPC6:1 Essity Aktiebolag's holdings of shares and participations in subsidiaries, December 31, 2018

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget 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
Lejenbrottet Aktiebolag	556643-7298	Gothenburg, Sweden	1,000	100	0
Foreign subsidiaries:					
Essity Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	174,329
Essity Italy S.p.A	3318780966	Capannori, Italy	125,000	25	279
Total carrying amount of subsidiaries					174,622

German subsidiaries that are subject to disclosure exemptions.

The following German companies are fully consolidated and subject to disclosure exemptions pursuant to Sec. 264 para. 3 of the German Commercial Code ("HGB").

1. Essity GmbH, domicile in Mannheim, Germany
2. Essity Holding GmbH, domicile in Ismaning, Germany
3. Essity Operations Neuss GmbH, domicile in Neuss, Germany
4. Essity Operations Mannheim GmbH, domicile in Mannheim, Germany
5. Essity Operations Mainz-Kostheim GmbH, domicile in Wiesbaden, Germany
6. Essity Professional Hygiene Germany GmbH, domicile in Mannheim, Germany
7. Essity Germany GmbH, domicile in Mannheim, Germany
8. Essity Operations Witzhausen GmbH, domicile in Witzhausen, Germany
9. Essity Hygiene Holding GmbH, domicile in Mannheim, Germany
10. BSN medical GmbH, domicile in Hamburg, Germany

PC7. RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Receivables from and liabilities to subsidiaries

SEKm	2018	2017
Fixed assets		
Derivatives	507	435
BS Total	507	435
Current assets		
Interest-bearing receivables	502	469
Financial derivatives	158	761
Trade receivables	211	210
Other receivables	2,145	47,330
BS Total	3,016	48,770
Non-current liabilities		
Financial derivatives	-	12
BS Total	-	12
Current liabilities		
Interest-bearing liabilities	40,816	43,964
Financial derivatives	229	396
Accounts payables	32	73
Other liabilities	172	48,028
BS Total	41,249	92,461

PC8. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2018	2017
TPC8:1 Prepaid expenses and accrued income	17	19
Other receivables	4	141
BS Total	21	160
TPC8:1 Prepaid expenses and accrued income		
Prepaid lease of premises	7	7
Prepaid financial expenses	1	1
Prepaid insurance premiums	-	1
Other items	9	10
Total	17	19

PC9. FINANCIAL INSTRUMENTS

AP ACCOUNTING PRINCIPLES

The Parent Company's financial instruments are recognized in accordance with the Group's accounting principles. Refer to Notes E1-E4 on pages 89-92. Hedge accounting was not applied by the Parent Company.

Financial items

SEKm	2018	2017
Result from participations in Group companies		
Dividends from subsidiaries ¹⁾	16,255	4,245
Group contributions received from subsidiaries	2,144	439
Group contributions paid to subsidiaries	-	-678
Impairment of shares in subsidiaries	-52	-1,269
Interest income and similar profit items		
Interest income, external	8	0
Interest income, subsidiaries	321	491
Interest expenses and similar loss items		
Interest expenses, external	-532	-442
Interest expenses, subsidiaries	-460	-470
Other financial expenses ²⁾	-36	-69
IS Total	17,648	2,247

¹⁾ Dividends in 2018 include the gain from the liquidation of Essity Capital NV totaling SEK 7,207m.

²⁾ The item other financial expenses includes financial fees and exchange rate differences. Exchange rate differences amounted to SEK 6m (19), net.

Interest-bearing liabilities

Non-current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2018	2017	2018	2017
Bond issues	33,767	35,288	34,427	35,670
Other non-current loans with a term > 1 yr < 5 yrs	3,406	4,444	3,425	4,419
Other non-current loans with a term > 5 yrs	2,053	1,965	1,960	1,823
BS Total	39,226	41,697	39,812	41,912

Current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2018	2017	2018	2017
Bond issues	3,000	2,946	3,000	2,946
Loans with maturities of less than one year	3,430	1,500	3,430	1,500
BS Total	6,430	4,446	6,430	4,446

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate %
Notes SEK 500m	2019	500	500	2.50
Notes SEK 900m	2019	900	900	0.75
Notes SEK 1,000m	2019	1,000	1,000	-0.15
Notes SEK 600m	2019	600	600	-0.32
Notes EUR 300m	2020	3,083	3,103	0.50
Notes EUR 500m	2021	5,123	5,161	0.50
Notes EUR 600m	2022	6,136	6,182	0.63
Notes EUR 500m	2023	5,110	5,517	2.50
Notes EUR 600m	2024	6,139	6,216	1.13
Notes EUR 300m	2025	3,076	3,038	1.13
Notes EUR 500m	2027	5,100	5,165	1.63
Total		36,767	37,427	

Financial instruments by category

AP ACCOUNTING PRINCIPLES

The categories of financial instruments in 2018 classified according to IFRS 9 that exist in the Parent Company comprise financial assets and liabilities measured at fair value through profit or loss and amortized cost. In 2017, the Parent Company classified its financial instruments in the categories loans and trade receivables and financial liabilities measured at amortized cost, except for derivatives, which were measured at fair value through profit or loss. The transition to IFRS 9 did not entail any changes in valuations. All of the Parent Company's financial assets and liabilities measured at fair value through profit or loss are assessed according to measurement level 2. For a definition, refer to Note E1 on page 89. Financial assets measured at amortized cost are continuously reviewed to assess the need for credit loss provisions. If there is a material need for credit loss provisions, a provision is made in accordance with the expected credit loss model.

PC9. FINANCIAL INSTRUMENTS, CONT.

Financial instruments by category			
SEKm	Note	2018	2017
Financial assets measured at fair value through profit or loss			
Derivatives with subsidiaries – Non-current financial assets	PC7	507	435
Endowment insurances – Other non-current receivables		213	51
Derivatives with subsidiaries – Current financial assets	PC7	158	761
Total		878	1,247
Financial liabilities measured at fair value through profit or loss			
Derivatives for subsidiaries – Non-current financial liabilities	PC7	–	12
Derivatives for subsidiaries – Current financial liabilities	PC7	229	396
Total		229	408
Loan and trade receivables measured at amortized cost			
Current interest-bearing receivables with subsidiaries	PC7	502	469
Trade receivables with subsidiaries	PC7	211	210
Trade receivables – other current receivables		0	1
Total		713	680
Financial liabilities measured at amortized cost			
Non-current interest-bearing liabilities		39,226	41,697
Current interest-bearing liabilities to subsidiaries	PC7	40,816	43,964
Current interest-bearing liabilities		6,430	4,446
Accounts payables to subsidiaries	PC7	32	73
Accounts payables		20	29
Other current liabilities to subsidiaries	PC7	3	2
Other current liabilities		297	284
Total		86,824	90,495

The nominal value of the derivatives before the right of set-off is SEK 136,392m (105,056). The nominal value of the derivatives after the right of set-off is SEK 56,561m (54,958).

PC10. OTHER CURRENT LIABILITIES

Other current liabilities		
SEKm	2018	2017
TPC10:1 Accrued expenses and prepaid income	432	440
Other operating liabilities	47	32
BS Total	479	472

TPC10:1 Accrued expenses and prepaid income		
SEKm	2018	2017
Accrued interest expenses	297	284
Accrued social security costs	53	55
Accrued vacation pay liability	16	15
Other liabilities to personnel	43	64
Other items	23	22
Total	432	440

PC11. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented on page 109. The company was formed in 1988. The share capital and number of shares have increased since the formation via new issues and bonus issue as set out below:

YEAR	Event	No. of shares	Increase in share capital	Cash payment, SEKm
1988	Number of shares issued in connection with formation	500	0.1	0.1
1995	New issue 1:1, issue price SEK 100	500	0.1	0.1
2016	New issue 1:4, issue price SEK 100	4,000	0.4	0.4
2017	Bonus issue	702,337,489	2,349.9	0.0
2018	Number of shares, December 31, 2018	702,342,489	2,350.4	0.5

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

PC12. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities		
SEKm	2018	2017
Guarantees for subsidiaries	16,878	53,489
Other contingent liabilities	78	94
Total	16,956	53,583
Pledged assets		
SEKm	2018	2017
Other	213	184
Total	213	184

PC13. ADOPTION OF THE ANNUAL ACCOUNTS

The annual accounts are subject to adoption by Essity Aktiebolag's Annual General Meeting and will be presented for approval at the Annual General Meeting on April 4, 2019.

PC14. EVENTS AFTER THE BALANCE SHEET DATE

No significant events occurred after the balance sheet date that impacted the financial statements.

H. NOTES TO NON-FINANCIAL INFORMATION

H1. GENERAL ACCOUNTING PRINCIPLES

Reporting principles

The environmental and social data reported pertains to the 2018 calendar year. The figures included comply with relevant reporting and consolidation principles in the financial statements. The figures cover the Essity Group's wholly owned subsidiaries and subsidiaries in which Essity owns at least 50%. If ownership in the subsidiary is at least 50% or more, the entire company is included in the reporting. Essity uses the global Greenhouse Gas Protocol standard for measuring, and calculating carbon data.

Subsidiaries with significant non-controlling interests (see Note F2), such as the Chinese company Vinda and the Colombian company Familia, social data, such as employee figures, employee turnover and health and safety data is reported in notes H14 and H15. Some other social data is not included, for example Note H13 Code of Conduct data as subsidiaries with significant non-controlling interests have their own Codes of Conduct. Vinda publishes an Environmental, Social and Governance (ESG) report, which is available at www.vinda.com. Familia reports in accordance with the GRI Reporting Standards. For more information, visit www.grupofamilia.com.co.

Newly acquired businesses are included in the reporting as soon as possible, though not later than when they have been part of the Group for one calendar year. The historic environmental and social data of newly acquired companies are included to the greatest possible extent in order to increase comparability. The data from divested companies is excluded in its entirety as of the divestment date. Historic data for discontinued units is retained.

A main site is a production facility that is wholly owned by Essity and that has 100 or more employees.

Data collection

Data provided in the report is compiled through various systems, primarily the Group's financial consolidation system, Resource Management System (RMS) and Essity's system for collection of social data.

Environmental data

The RMS encompasses more than 76 production sites, covering virtually the entire company's environmental impact and resource utilization from production. Data from stand-alone tissue converting sites is included in the main mother reel supplying site.

Each unit reports the following data to the system:

- raw material consumption
- incoming and outgoing shipments
- production volumes
- energy consumption broken down by hydro-electric power, co-generation and power from the grid
- fuel consumption broken down by biofuels, fossil fuels and electric boilers
- air emissions, including data on fossil and biogenic carbon dioxide
- water emissions
- solid waste

The data is reported both internally and externally at the mill level and for the Group as a whole. The values calculated are carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O). Conversion factors used:

- Emissions of greenhouse gases from incineration are calculated using emission factors for the fuel's thermal value. Source: IPCC Guidelines 2006.
- Emissions of greenhouse gases from purchased electricity are calculated using the country's emission factor published by the International Energy Agency (IEA), 2016.

Social data

Data is provided from different internal systems and tools depending on the nature of the data. HR data resides in Essity's HR system and other qualitative data is collected in Essity's database for social data.

Comparability

This is Essity's second integrated Annual and Sustainability Report. The previous year's report is from February 21, 2018. Historical information is also obtained from previous publications of SCA's Sustainability Reports. This information is adjusted to make Essity's figures comparable. This applies for example to most of the GRI indicators and data encompassed by Essity's sustainability targets, such as information on CO₂ and health and safety. Figures from previous years 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

Essity reports sustainability information in accordance with the Global Reporting Initiatives (GRI) guidelines for GRI Reporting Standards: Core. The Report has been structured in accordance with GRI principles, meaning that the content is determined by the issues that are most material to Essity and its stakeholders, and that the content provides a complete overview of the operations. Essity's 21 subject areas in the materiality analysis are matched against GRI indicators, and they form the selection of the indicators that Essity presents in this report. Essity reports in accordance with all GRI indicators and on a level identified as material. In addition, Essity reports a number of general indicators according to the GRI Standards: Comprehensive option as this clarifies the information in the report. Any omissions or incomplete data are commented on directly in the GRI index. The entire report has been reviewed by EY. The report is aimed at specialist audiences with an interest in sustainability performance, including analysts, investors and NGOs. Additional information about Essity's work on environmental and social issues is available at www.essity.com.

The UN Guiding principles

Essity uses the reporting framework for the United Nations Guiding Principles on Business and Human Rights (UNGPs) and has reported on the overarching aspects contained in the framework.

H2. CUSTOMERS AND CONSUMERS

Essity conducts systematic customer and consumer follow-up. This includes external reports, independent surveys and global systems for feedback. Complaints have remained at a stable and low level in recent years. For Personal Care products, the complaint frequency is lower than 1 in a million supplied products. In the Tissue operations, the corresponding figure is 2.6 per thousand tons.

Customer surveys

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

Essity also offers expertise and support for the development of operations in, for example, nursing homes and professional environments, where the company can help make a difference and create value for its customers and users. Essity places high value on opportunities for direct customer contact.

The retail trade accounts for a significant part of Essity's net sales. The company uses external comparison reports in which the largest retail chains assess their suppliers based on customer service, logistics, sales support, marketing and product development. Consumers who purchase retail products are followed up through general brand and product recognition surveys.

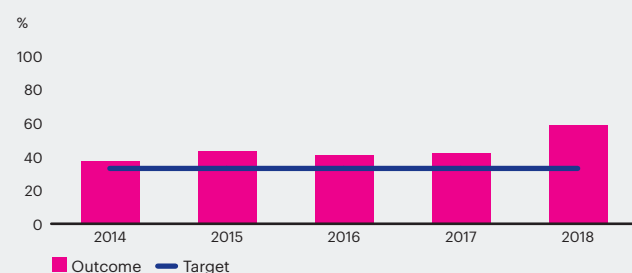
H3. INNOVATION

Essity has a Group target to provide social and/or environmental improvements on innovations launched. The target is for at least one-third of all innovations to achieve these criteria each year. 59% (42, 41) of Essity's innovations yielded social and/or environmental improvements. This refers to the percentage of sales of innovations measured over 36 months. In 2018, 29 innovations were launched.

People and nature innovations

Innovations that improve social and environmental performance also make financial sense. For Essity, these innovations have added value and are based on an in-depth understanding of customers and consumers.

People and nature innovations



Carbon footprint reduction

Product	Carbon footprint reduction 2008-2017, %
TENA Flex	-16
TENA Lady	-31
TENA Men	-21
TENA Pants	-33
TENA Slip	-20
TENA Comfort	-18
TENA Bed	-9
Libero open diaper	-25
Libero pant diaper	-16
Feminine Ultra towels	-14
Tork Exelclean ¹⁾	-14
Tork paper hand towels ²⁾	-18

¹⁾ 2012-2016

²⁾ 2011-2017

The life cycle assessments performed by Essity were verified by the Swedish Environmental Research Institute (IVL) in 2017. The table is updated every second year.

H4. HYGIENE SOLUTIONS

Essity's aim is to convey knowledge about hygiene to customers and consumers. In 2018, Essity educated around 2.5 million people in health and hygiene. Most, 66%, were children and teenagers who were educated in good hand hygiene and young girls about menstruation. Other target groups for this training were caregivers, doctors, staff at residential care facilities, parents and the immediate family to pensioners. Areas covered by the training sessions included hand hygiene, puberty and menstruation, incontinence, wound care and parental education.

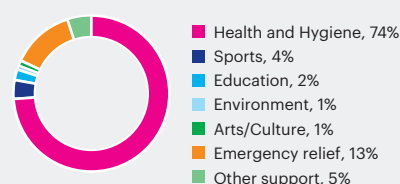
H5. COMMUNITY RELATIONS

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

In 2018, Essity invested approximately SEK 18m in over 300 projects. Most of the projects were related to hygiene and health.

Essity's community relations instruction states that Essity shall be politically and religiously neutral. The company must not make payments or product donations to political parties or candidates, or their institutions, agencies or representatives, or religious institutions/organizations or their representatives. Essity did not support any organizations or projects with political or religious aims in 2018.

Community relations by focus area 2018



H6. FIBER SOURCING

In 2018, Essity updated its global fresh fiber sourcing policy and thereby reinforced its commitment to sustainable forestry operations, forest certification and traceability for fiber content. The new policy is available at www.essity.com.

Essity is a global purchaser of both fresh fiber and recovered fiber and has communicated its clear commitment that all fresh wood based fiber raw material will originate from responsibly managed forests. Essity's target for fresh wood based fiber sourcing is to continuously increase the share of certified fiber in its products and packaging, with a preference for FSC® certification, until all of the fiber is certified. All fiber that is not yet certified must fulfill the FSC Controlled Wood standard to be eligible for purchasing. Goal fulfillment for certified fiber in 2018 was 76%. The remainder fulfilled FSC's Controlled Wood standard.

Most of Essity's wholly owned manufacturing units are now certified in line with FSC and/or PEFC Chain of Custody standards.

Essity's fiber use

Renewable raw materials (fresh fiber and recycled fiber) account for the largest share of the total volume of material in tissue products and are an important material in Personal Care products. Synthetic materials are used in Personal Care products to meet the user's function and quality requirements.

In 2018, Essity sourced 2.9 million tons of fresh fiber and 2.1 million tons of recovered fiber. Fresh fiber mainly comprises pulp, 97.4%, and the remainder comprises packaging, externally sourced mother reels and products manufactured by third parties. Of the 2.1 million tons of recovered fiber sourced, 91% is used in tissue manufacturing. The remainder consists of recovered fiber, which is found in sourced packaging material and sourced mother reels.

Recovered fiber

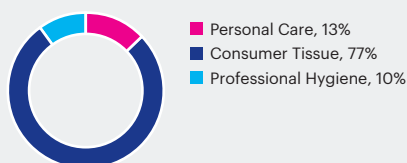
The proportion of recovered fiber in Essity's products varies between regions due to differences in quality, user preferences and fiber supply and demand. The North American operations use 97% recovered fiber, while the proportion of recovered fiber in Latin America is 77% and in Europe 38%.

Results of audit of pulp suppliers

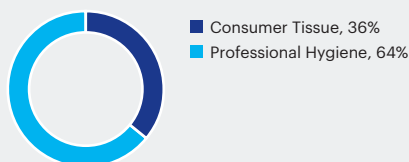
The eleven largest of Essity's pulp suppliers to wholly owned companies represent 80% the volume sourced. Essity audits all of its pulp suppliers to verify compliance with Essity's sourcing policy for fiber. In addition to this, all suppliers must sign Essity's Global Supplier Standard. Pulp suppliers are also assessed through the use of detailed questionnaires to verify that they fulfill the requirements of chain of custody certification and ecolabeling. All pulp suppliers in 2018 showed that they comply with the standards and requirements made on them by Essity.

During 2018, Essity's personnel visited ten supplier facilities to assess compliance with the company's requirements. In addition to these pulp supplier audits, Essity has provided support to several other suppliers where wood fiber may be part of the raw material. The purpose of this was to help them achieve FSC chain of custody certification.

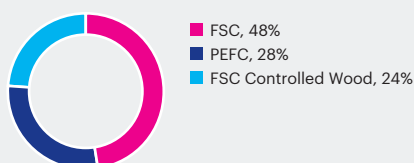
Pulp consumption 2018



Recovered paper consumption 2018



Essity's fresh fiber use 2018



H7. ENERGY AND EMISSIONS TO AIR/ SCIENCE-BASED TARGETS

Essity's Group target is to reduce CO₂ emissions, in relation to the production level, from fossil fuels and from purchased electricity and heating by 20% by 2020, with 2005 as reference year. CO₂ emissions declined at year-end 2018 by 18.8% compared with the reference year of 2005.

Energy utilization

Energy use calculations include purchased energy (heating, electricity and fuel) and use of biomass and electricity generated on site. Energy efficiency, new technology and the greater use of renewable energy are required to achieve Essity's stated targets.

ESAVE

In 2010, Essity adopted a target for ESAVE: to reduce energy consumption per ton of product produced by 14% by 2020. During 2018, energy consumption rose 1.4% (-0.4), the first increase in ten years. The accumulated energy savings in the 2010–2018 period amounted to 8.0%.

The EU Emissions Trading Scheme (EU ETS)

Essity had 24 mills and plants included under the EU ETS in 2018. Essity's operations have a deficit of emission allowances during the third phase of EU ETS (2013–2020). The deficit involves an average of approximately 0.2 million tons of carbon dioxide equivalents per year during the period. The average market price for emission rights in 2018 was about EUR 15.9 per ton and Essity purchased 240,000 emission rights.

Emissions

Essity's climate-affecting emissions are divided into three different scopes depending on origin. Scope 1 and 2 are directly linked till Essity's production facilities and are dependent on production volumes. This also includes direct emissions from fuel consumption and indirect emissions from the use of purchased energy. Scope 3 reports indirect emissions in Essity's value chain.

Scope 1 consists of emissions from burning of fuels at Essity's production facilities. The reported data is based on energy use with associated emission factors.

Scope 2 consists of emissions from purchased energy and is primarily linked to the use of electricity and also purchased thermal energy in the form of steam. The calculation of emission data uses country and region-specific emission factors.

Scope 3 emissions derive from, for example, energy use that is not owned or controlled by Essity. The emission categories included are from the production of purchased raw materials, incoming and outgoing transportation, and the handling of production waste and waste from used products. In 2019, Essity will further develop the working methods for monitoring and reporting Scope 3 based on established methods.

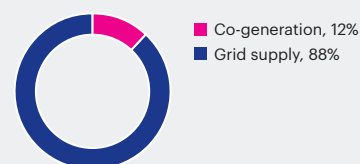
Other air emissions from use of fuel in production facilities include nitrogen oxides and sulphur oxides (NO_x and SO_x). These are reported in Essity's environmental reporting system.

Science-Based Targets

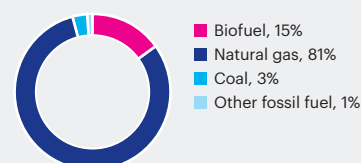
In addition to the aforementioned Group target, Essity's new targets to reduce greenhouse gases emissions have been approved by the Science Based Targets initiative. In terms of energy consumption within the company and purchased electricity (Scope 1 and 2), Essity has undertaken to reduce greenhouse gas emission by 25% by 2030 compared with 2016. The outcome for 2018 was 5.0% for Scope 1 and 2.

Essity has, moreover, undertaken to reduce greenhouse gas emissions from the most important purchased raw materials, transport, waste arising from operations and handling at the end of the life cycle for sold products (Scope 3) by 18% by 2030 compared with 2016. The outcome for Scope 3 will be reported as of 2019.

Electricity consumption 2018



Distribution of fuel consumption 2018



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

H7. ENERGY AND AIR EMISSIONS/SCIENCE-BASED TARGETS, CONT.

Energy and emissions to air

		Essity						Subsidiaries with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Production	ktons	2,969	3,063	3,073	581	579	532	317	332	320	3,867	3,975	3,926
Energy utilization													
Electricity													
Purchased electricity	GWh	3,560	3,593	3,657	461	451	423	276	275	292	4,297	4,319	4,372
Heating/steam													
Purchased heating/steam	TJ	901	687	679	3	13	16	0	0	0	904	700	695
Fuels													
Biofuel	TJ	4,626	4,414	4,923	16	25	29	0	0	0	4,642	4,439	4,953
Fossil fuel	TJ	25,306	25,515	25,772	389	428	418	1,255	1,222	1,150	26,949	27,165	27,340
Total fuels	TJ	29,932	29,929	30,695	405	453	448	1,255	1,222	1,150	31,591	31,604	32,292
Total energy	GWh	12,125	12,097	12,372	574	580	551	625	615	612	13,324	13,292	13,535
Energy intensity (specific energy used)	GWh/ktons	4.1	3.9	4.0	0.99	1.00	1.04	2.0	1.8	1.9	3.4	3.3	3.4
Air emissions													
NOx as NO ₂	tons	1,758	1,827	1,911	17	21	21	23	24	26	1,799	1,872	1,958
SOx	tons	664	775	752	0	0	0	13	14	16	676	789	768
Dust	tons	116	122	135	0	0	0	5	5	5	122	127	141
CO ₂ Scope 1	ktons	1,419	1,433	1,443	24	27	31	75	73	69	1,517	1,532	1,543
CO ₂ Scope 2	ktons	1,159	1,256	1,277	179	181	176	92	86	91	1,430	1,523	1,544
CO ₂ biogenic	ktons	474	459	524	0	0	0	0	0	0	474	459	524
Carbon intensity (Scope 1 and 2)	ktons/ktons	0.87	0.88	0.89	0.35	0.36	0.39	0.53	0.48	0.50	0.76	0.77	0.79

H8. WATER

Essity's Group target for water is that the company's tissue operations will reduce the level of suspended solids, the volume of water used and organic content (BOD) by 10% by 2020, with 2014 as reference year.

In 2018, levels of suspended solids decreased by 18.5%, volumes of effluent water by 2.9% and the amount of organic content (BOD) by 25.0%.

Usage and discharge of water

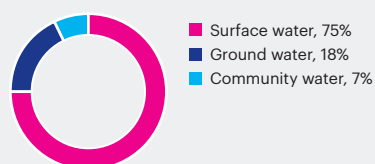
Most of Essity's water is used to transport fibers during production processes and the remainder is mainly used as cooling water. 75% of the water used is drawn from surface sources. Essity's reporting of water usage states totals for surface water, groundwater and municipal water systems. Essity's effluent water is divided into cooling water and process water. Cooling water has simply been heated and is not contaminated in any way. The total volume of discharged water was 93 million cubic meters. The water is treated using mechanical and biological treatment systems. The figures for 2018 refer to process water emissions.

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

In 2018, the Group used 100 million cubic meters of water in pulp and paper production.

Seven of Essity's wholly owned production facilities are located in so-called water-stressed areas. The sites accounted for 6% of Essity's total water consumption in 2018, distributed between 40% from surface sources, 28% from groundwater and the remainder from recycled water and municipal water systems.

Water extraction 2018



H8. WATER, CONT.

Water

		Essity						Subsidiaries with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care			2018	2017	2016
		2018	2017	2016	2018	2017	2016	2018	2017	2016			
Water													
Water extraction	Mm ³	100	101	101	0.81	0.32	0.35	3	3	3	103	104	104
Discharges of water	Mm ³	93	93	93	0	0	0	2	2	2	95	95	95
Water consumption	Mm ³	6.7	7.8	8.3	0.8	0.3	0.3	0.8	0.9	0.7	8.2	9.0	9.3
Water emissions													
COD	tons	6,316	6,620	6,930	0	0	0	733	900	967	7,049	7,520	7,897
BOD	tons	673	654	896	0	0	0	185	229	262	859	884	1,157
Suspended solids	tons	815	827	1,074	0	0	0	186	242	250	1,001	1,069	1,324
AOX	tons	3	5	4	0	0	0	0	0	0	3	5	4
P	tons	44	38	43	0	0	0	0	0	0	44	38	43
N	tons	198	235	377	0	0	0	1	3	5	199	238	381

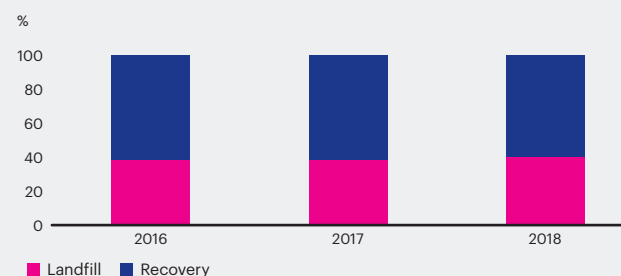
H9. WASTE

Essity's target for production waste is that all waste from all production units will be subject to material and energy recovery by 2030. In 2018, Essity's production waste amounted to a total of 1.65 million tons. In Essity's production process, particularly when recovered fiber is used as input goods, waste is generated in the form of ash, sludge, organic waste and plastic. The production sites work to reduce waste and to find alternative solutions for their waste. In 2018, a significant part (1 million tons) was recovered as raw materials for other industries, such as the construction industry, or as an energy source. The remainder was sent to landfill.

The solid waste reported by Essity is waste that is sent to landfill and recycled waste. Recycled waste refers to materials that can be used as raw materials in other industries, such as the cement, brick-making and construction industries. This includes waste generated in the production process. Some of the waste can be composted or used for energy extraction. By reducing the amount of production waste sent to landfill and instead recycling the waste or extracting energy from it, greenhouse gas emissions can be reduced, thereby helping Essity to achieve its Science-Based Targets.

A very small proportion (0.2% or 3,200 tons) is hazardous waste, which is primarily waste oil, but also includes organic solvents, batteries and strip lights.

Waste



Waste

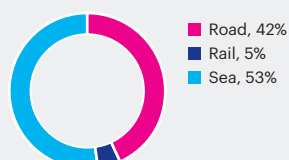
		Essity						Subsidiaries with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care			2018	2017	2016
		2018	2017	2016	2018	2017	2016	2018	2017	2016			
Solid waste													
Landfill and incineration	tons	654,295	621,047	664,791	4,710	5,599	6,245	8,104	7,305	10,208	667,110	633,951	681,244
Recovery	tons	819,019	882,185	966,134	56,143	55,887	46,539	111,548	102,392	100,246	986,710	1,040,464	1,112,919
Total waste	tons	1,473,314	1,503,232	1,630,925	60,853	61,486	52,784	119,652	109,696	110,454	1,653,820	1,674,415	1,794,162

H10. TRANSPORT

Raw materials are transported to Essity's production plants and finished products are delivered to Essity's customers. Essity uses external suppliers for most of its transportation needs. Essity's total transportation amounted to 14 (13, 13) billion ton-kilometers. Sea freight accounts for the greatest portion of Essity's transport and the remainder consists of road and rail. The Group's total carbon emissions from transport in 2018 amounted to 480,000 (457,000, 517,000) tons.

Emissions from transportation is included in Essity's report of Scope 3 objectives in Science-Based Targets. Emission data for 2016 and 2017 was updated to bring it into line with the guidelines for Science-Based Targets.

Distribution of transport usage 2018



H11. SUPPLY CHAIN MANAGEMENT

Essity's target for responsible sourcing is that all of our sourcing is to be from suppliers that share the company's values, as defined in Essity's Global Supplier Standard. This is to ensure responsible business methods and respect for human rights. By 2020, the aim is to source 100% of Essity's procurement spend from suppliers that undertake to commit to the criteria specified in the Global Supplier Standard. In 2018, 71% (64) of the procurement spend was sourced from suppliers who fulfill this criteria.

Essity has an established process to perform continuous risk assessments of the company's suppliers and sourcing categories. The aim is to secure deliveries and minimize risks linked to the company's sourcing. Certain materials, such as cotton and wood fiber, are considered to have higher risk lower down in the value chain. Essity takes specific measures here, such as audits of subcontractors, or chooses certified raw materials that guarantee more sustainable extraction and production. In 2018, Essity has continued to implement sustainable sourcing linked to the Medical Solutions product category (previously BSN medical, which was acquired in 2017) by introducing the same working methods as used by other suppliers.

Ethical audit results

During 2018, Essity evaluated the outcome from 59 ethical supplier audits, of which 30 were carried out by SGS on Essity's behalf in China, Romania, Russia, Brazil, Spain, India, Israel and Mexico. In addition, 29 ethical audits performed on behalf of other customers of the suppliers were approved by Essity.

Essity is informed within 24 hours in cases of critical observations. To date, this type of action has been necessitated due to rare cases of excessive overtime, overtime not being paid at a premium, or no evidence of fire drills being conducted in the last 12 months. No agreements with strategic suppliers were terminated on the grounds of sustainability-related non-compliance in 2018.

Risk exposure in Essity's supplier base

Approximately 81.1% of Essity's supplier base is located in Europe, 18.4% in North and South America and 0.5% in Asia/Middle East. Many of the strategic suppliers' production facilities located in Asia and Latin America belong to large multinational corporations based in Europe and the US. This is a conscious choice by Essity and reduces the social and ethical risks within the supply chain.

Global and regional strategic suppliers of raw materials and merchandise represent about 76% (61) of Essity's procurement spend. 21% (22) of suppliers' manufacturing units are located in high-risk countries according to the Maplecroft Human Rights Index. These suppliers are in scope for ethical audits with a focus on health and safety, human rights, employment conditions and corruption. Essity has various tools to assess the need for an ethical audit, such as a low rating in Sedex, a low health and safety score in Essity's supplier qualification audit or warning signals in conjunction with Sedex's regular risk assessments. Sedex is an online database that enables suppliers to share information with their customers on their status in areas such as labor conditions, health and safety and business ethics. At the end of 2018, Essity had a total of 694 (481) supplier plants that share this type of data via Sedex.

H12. CERTIFICATIONS

Reliable management systems, which are certified by a third party, play an important role in Essity's corporate responsibility. Essity uses the certified environmental management system ISO 14001 and EMAS (the EU's Eco Management and Audit Scheme). A large number of production units are certified in accordance with ISO or/and EMAS. ISO 9001 is the most important quality management system used by Essity. Essity implements the international standard OHSAS 18001 (Occupational Health and Safety Assessment Series) to ensure the use of uniform processes throughout the Group and that Essity's units continuously improve workplace-related health and safety. OHSAS specifies requirements regarding the organization's occupational health and safety management systems.

Certified volumes, Essity's main sites¹⁾

		Consumer Tissue and Professional Hygiene			Personal Care		
		2018	2017	2016	2018	2017	2016
ISO 9001	%	73	73	77	97	97	96
ISO 14001	%	80	85	86	86	85	85

¹⁾ A main site is a production facility that is wholly owned by Essity and that has 100 or more employees.

H13. CODE OF CONDUCT AND WORK WITH ANTI-CORRUPTION

Essity's target is for all employees to receive regular training in the Code. During 2018, 90% of all new employees had received training in Essity's Code of Conduct.

Essity has an anti-corruption e-learning course, translated into 21 languages, which is included in onboarding programs. Essity also trains employees using e-learning courses on EU competition law and US antitrust legislation.

Risk analysis

Essity's human rights and corruption risk analysis is based on assessments carried out by Amnesty, Transparency International and Sedex. Approximately 30% of Essity's revenue is generated in countries with a high risk of human rights violations. About 31% comes from countries with a relatively high risk of corruption. In the 2018 Sedex assessment, all of Essity's main facilities received a low to medium risk classification.

Reported breaches

In 2018, 81 (63, 71) cases of potential breaches of laws or of the Code of Conduct were reported to Essity's whistleblower function. Of the 81 reported complaints, 24 were still subject to investigation at year-end. Among the reported complaints, three related to the suspicion of corruption. All of the three investigations were closed during the year without any corruption being identified and no one was dismissed on suspicion of corruption. Other reported complaints included 58 HR-related incidents and concerned accusations of discrimination and harassment and the remaining 20 cases concerned potential violations of the company's other policies.

Internal audits conducted of the Code of Conduct

In 2018, Code of Conduct audits were conducted at two sites in Colombia and South Africa. Both are acquired units from BSN medical and a number of areas for improvement were identified to raise levels to normal Essity standard, in areas including working environment, health and safety. In addition, there was little or no knowledge of BSN medicals' or Essity's Code of Conduct among employees. An action program is in place and has been implemented or will be implemented in 2019.

Internal audits conducted of business ethics

In 2018, business ethics audits were conducted in the US, Mexico, the UK and Indonesia and of exports to Kazakhstan and countries in the Middle East. The audits in the US, Mexico and Indonesia related to the acquisition of BSN medical units in 2017. These have a number of areas for improvement to reach Essity's standard. For example, staff require further training in the Code of Conduct and other policy documents, performance reviews need to be introduced and encryption of e-mails is necessary. The audit in the UK resulted in few and minor improvement measures. The unit for export sales was generally considered to follow Essity's guidelines but implemented internal training in the Code of Conduct and other policy documents needs to be better documented. Action plans are in place and have been carried out or will be carried out 2019.

Ongoing anti-trust cases

In May 2018, the Andean Community imposed fines of approximately USD 18m on Productos Familias S.A.'s operations in Ecuador and Colombia. The company has appealed the decision. In the same year, the Hungarian competition authority withdrew its investigation into the company. In early 2019, the Supreme Court in Spain rejected the company's appeal against the Spanish competition authority's decision to impose a fine from May 2016.

H14. EMPLOYEES

In 2018, Essity comprised on average 47,222 (46,385, 42,149) employees in some 50 countries, of whom 34% (34, 32) are women. The employee turnover rate is 15% (14, 13). The majority of Essity's employees are permanent/full-time employees and a minor share, about 5%, are temporary/part-time employees.

Individual development and salary statistics

In 2018, 88% (92, 90) of white-collar employees participated in performance management reviews. The corresponding number for blue-collar employees is 78% (80, 85).

Essity strives to provide salaries aligned with market terms, based on the executive's position and local labor market. Unjustified salary differences should not exist. In three of the countries, France, Germany and Sweden, where Essity has most employees in wholly owned operations, salary analyses are conducted annually that include comparisons between men's and women's salaries. In France, salaries for women on managerial levels range between 96% and 106% of their male counterparts, depending on the position held. For women on non-managerial levels, the corresponding figures were between 101% and 105%. In Germany, salaries for women on managerial levels range between 85% and 88% of their male counterparts, depending on the position held. For women on non-managerial levels, the corresponding figures were between 97% and 129%. In Sweden, salaries for women on managerial levels range between 88% and 96% of their male counterparts, depending on the position held. For women on non-managerial levels, the corresponding figures were between 97% and 102%. Essity continuously endeavors to narrow unjustified pay gaps and differences in other employment conditions.

Training

One prioritized area is to develop the potential of all employees and Essity's strategy is that most of this development should take place in daily work. Essity offers a global leadership platform, and approximately 700 managers took part in 2018. 290 people participated in the mandatory one-day onboarding program for all newly appointed managers. 240 participated in Core 1, a six-day program to develop managers who have been in their role for six to 12 months with a focus on leadership skills. Core 2 is conducted for more experienced managers, which is a leadership program to develop people's capabilities to lead in a complex environment, engage people and manage change. Creating Value is another course to further strengthen participants' capabilities in strategic leadership areas. In 2018, a total of 70 people took part in this program. During 2018, great emphasis was put on managing change and more than 100 managers took part in training about change management.

Other programs include the Hygiene Academy, which offers training in brand activities, digital marketing and innovation. 490 people in total took part in these programs. Essity has also established a training program in sustainability with the aim of improving understanding of sustainability's impact on products and services, customers and consumers.

The average number of training hours per employee was 15.

Diversity

In 2018, the proportion of women among Essity's top management was 25% (36, 33). Among senior management, the proportion of women was 26% (27, 25) and 27% (23, 27) among senior/middle management.

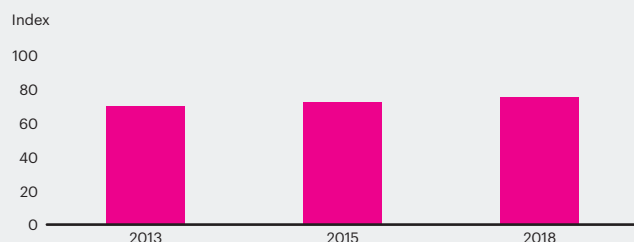
Senior management comprised 17 (18, 21) different nationalities and the corresponding figure was 39 (36, 32) for senior/middle management. Encouraging greater diversity is part of Essity's leadership platform and succession planning.

Leveraging a strong winning culture

Essity regularly carries out employee surveys. Employees are the company's main asset and an employee survey was held in 2018 that covered 31 statements at five levels. The statements were updated to reflect Essity's focus on hygiene and health and the company's new Beliefs & Behaviors. To achieve greater efficiency, the survey was carried out digitally for the first time. The results are expressed as indexes for Care, Committed, Courage, Collaboration and Engagement, as well as an overall Essity index. The response rate var 80% (88% in 2015). Essity's index var 75 (72 in 2015) on a scale of 1-100. Based on the outcome of the employee survey, all teams will develop and implement action plans to further strengthen Essity and make the company an even better place to work.

H14. EMPLOYEES, CONT.

Essity's employee index



Employee relations

Union involvement varies among Essity's countries of operation, but on average 63% (61, 54) of Essity's employees are covered by collective agreements.

There are health and safety committees on which representatives of about 82% (86) of employees serve.

The notice period in connection with organizational changes in the Group varies, but averages about five weeks.

WASH pledge

As a hygiene and health company, Essity wants its employees to enjoy first-class standards when it comes to workplace hygiene. Essity reported its WASH (Water, Sanitation and Hygiene) Pledge for the first time in 2016. The pledge is an initiative linked to the World Business Council for Sustainable Development (WBCSD). By signing the pledge, Essity undertakes to comply with a prescribed workplace WASH standard for its wholly owned units within three years. This includes areas such as workplace sanitation and health issues, as well as training to improve employees' awareness.

H15. HEALTH AND SAFETY

Essity's Group target is to decrease the accident frequency rate by 50% in the 2014–2020 period. In 2018, the accident frequency rate declined by 1% year-on-year to 3.8 (3.8, 4.1) and 39% compared with the base year of 2014.

In 2018, Essity developed a tool to measure and assess physical, mental and social health. The tool compiles local reactive, proactive and preventive efforts and provides feedback with practical improvement proposals. The tool will be launched worldwide in 2019.

Group-wide key performance indicators (KPIs)

In recent years, Essity has worked intensively to systematize and improve its safety work. Essity uses the following Group-wide KPIs:

- Number of Lost Time Accidents (LTA): accidents that result in an employee missing the next regularly scheduled work day or shift.
- Days Lost due to Accidents (DLA): number of work-days lost due to an LTA.
- Accident Severity Rate (ASR): The DLA / LTA.
- Accident Frequency Rate (FR): LTA / 1,000,000 hours worked.
- Incidence Rate (IR): LTA / 200,000 hours worked.

Health and Safety, key figures¹⁾

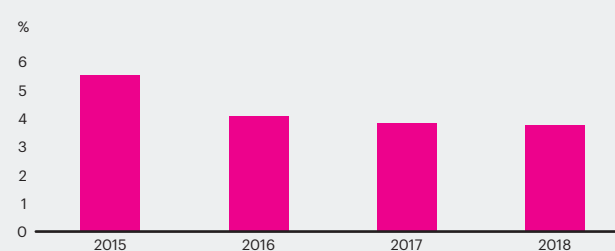
	2018	2017	2016	2015
Average headcount	27,900	27,100	24,900	24,200
Lost Time Accidents, LTA	214	210	207	281
Contractor Lost Time Accidents, CLTA	50	34	33	33
Days Lost due to Accidents, DLA	5,230	4,877	5,201	6,378
Accident Severity Rate, ASR	24.4	23.2	25.1	22.7
Accident Frequency Rate, FR (LTA/1,000,000 WH)	3.8	3.8	4.1	5.5
Incident Rate, IR (LTA/200,000 WH)	0.8	0.8	0.8	1.1
Fatalities (employees)	0	0	1	0
Number of zero-accident sites	27	26	19	17
Number of sites included in reporting	85	85	72	70

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

Sickness absence

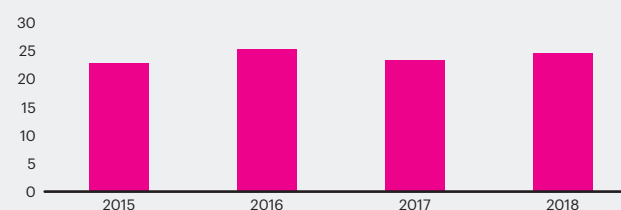
Using information supplied by 15,884 employees, average sickness absence in 2018 was 4.92%. The corresponding figures for 2017, 2016 and 2015 were 4.86% (15,962 employees), 4.88% (16,258) and 4.95% (16,367), respectively.

Accident Frequency Rate (FR)¹⁾



¹⁾ LTA/1,000,000 WH.

Accident Severity Rate, ASR¹⁾



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

PC15. PROPOSED DISPOSITION OF EARNINGS**Annual accounts 2018**

Disposition of earnings Essity Aktiebolag (publ)	
Non-restricted equity in the Parent Company:	
retained earnings	71,696,586,104
net profit for the year	16,162,101,468
Total	87,858,687,572
The Board of Directors and the President propose:	
to be distributed to shareholders, a dividend of SEK 5.75 per share	4,038,469,312
to be carried forward	83,820,218,260 ¹⁾
Total	87,858,687,572

¹⁾ The company's equity would have been SEK 340,640,501 lower if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14 of the Swedish Annual Accounts Act.

The Board of Directors and President declare that the combined financial statements that comprise the consolidated financial statements for the 2018, 2017 and 2016 fiscal years have been prepared in accordance with the International Financial Reporting Standards adopted by the EU and that disclosures herein give a true and fair view of the Group's financial position and results of operations. The Parent Company's financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Board of Directors' Report provides a fair review of the Parent Company's and Group's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, February 21, 2019

Ewa Björling
Board member

Pär Boman
Chairman of the Board

Tina Elvingsson Engfors
Board member,
appointed by the employees

Maija-Liisa Friman
Board member

Annemarie Gardshol
Board member

Magnus Groth
President,
CEO and
Board member

Bert Nordberg
Board member

Louise Svanberg
Board member

Örjan Svensson
Board member,
appointed by the employees

Lars Rebien Sørensen
Board member

Barbara Milian Thoralfsson
Board member

Niclas Thulin
Board member,
appointed by the employees

Our audit report was submitted on February 21, 2019
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

PC16. AUDITOR'S REPORT

To the general meeting of the shareholders of Essity AB, corporate identity number 556325-5511

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Essity AB (publ) except for pages 39–55 and 114–121 for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 6–8 and 20–122 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover pages 39–55 and 114–121. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has

been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

VALUATION OF GOODWILL AND OTHER INTANGIBLES ASSETS (TRADEMARKS)

Description	How our audit addressed this key audit matter
The value of goodwill and other intangibles (trademarks) with an indefinite useful life as of 31 December 2018 amounted to 46,5 billion SEK. An impairment test is a complex process and contains a high degree of judgment regarding future cash flows and other assumptions. The Company performs annual impairment tests as well as when impairment indicators have been identified. The recoverable amount for each cash-generating unit is determined as the value in use, which is calculated based on the discontinued present value of future cash flows. Key assumptions in these calculations are future growth rate, gross profit and applied discount rate and are presented in Note D1 ("Intangible assets") The process is by nature based on assumptions and judgment, not least because it is based on estimates of how the company's business will be effected by future market developments and by other economic events, and the underlying calculations are in themselves complex. We have therefore assessed valuation of goodwill and other intangibles assets with an indefinite useful life to be a key audit matter.	In our audit we have evaluated and reviewed key assumptions, applications of recognized valuation practice, discount rate (called WACC – "Weighted Average Cost of Capital") and other source data that the company has used. This has been done by comparing to external data sources, such as forecasts of inflation or assessment of future market growth and by evaluating the sensitivity in the company's valuation model. We have specifically focused on the sensitivity in the calculations and have made an independent evaluation of whether there is a risk that reasonably probable events would give 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 in impairment tests with the amounts that finally turned out, in order to assess the company's historical precision in its estimates and assessments. We have as appropriate included valuation experts in the team performing our review. Finally, we have evaluated if disclosures provided in Note D1 ("Intangible assets") in the company's notes are appropriate, specifically with regards to the disclosure of which of the stated assumptions that are most sensitive in calculating the value in use.

REVENUE RECOGNITION AND RELATED SALES INCENTIVES

Description	How our audit addressed this key audit matter
Revenue recognition and accounting for related sales incentives (bonuses and rebates) are areas with a greater degree of estimates and assessments. We have noted that bonuses, rebates and other adjustments of sales prices in some cases can be material. Incentives related to sales are reported as reduction of the company's revenue. Incentives can for example be structured as percentage reductions on sales, discounts per item, fixed amounts with or without thresholds or in other ways. The company calculates an estimate of final incentives based on the information available the end of the period. We have therefore assessed revenue recognition and related sales incentives to be a key audit matter.	In our audit we have reviewed the company's revenue recognition with focus on bonuses and rebates. We have evaluated the company's revenue process and tested the company's controls within the process. We have also reviewed the accrued costs related sales incentives (bonuses and rebates) to customers as of 31 December 2018 which amounted to 4.8 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2017. Our audit has also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2018. We have also reviewed revenue recognition for non-standard customer agreements. In our audit we have tested larger payouts to the company's customers that have taken place during 2018 in order to confirm that they are in accordance with signed agreements and also accrued correctly in the accounting. Finally, we have audited manual journal entries related to bonus and rebates in order to confirm that sufficient documentation and suitable attestations exist for these entries.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–5, 9–19 and 127–134. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

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 AB (publ) for the year 2018 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.

A separate list of loans and collateral has been prepared in accordance with the provisions of the Companies Act.

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 requirements 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess 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 46–55 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 exam-

ination 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 33–45 and 114–121, 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 as auditor in charge, Box 7850, 103 99 Stockholm, was appointed auditor of Essity AB by the general meeting of the shareholders on April 12, 2018 and has been the company's auditor since May 27, 2016.

Stockholm, February 21, 2019
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Statutory sustainability report

The report includes requirements placed on sustainability reporting as stated in the Annual Accounts Act.
The report has been reviewed by Ernst & Young AB.

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GRI index

Essity's 2018 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.

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	203-2	Significant indirect economic impacts	13-15		
Anti-corruption GRI 205: Anti-corruption 2016	103-1/2/3 ¹⁾	DMA	41-42		Business ethics Transparency
	205-1	Operations assessed for risks related to corruption and the Transparency-significant risks identified	120		
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Anti-competitive Behavior GRI 206: Anti-competitive Behavior 2016	103-1/2/3 ¹⁾	DMA	41-42		Business ethics Transparency
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	305-3	Other indirect greenhouse gas (GHG) emissions (Scope 3)	119		
	305-4	Greenhouse gas (GHG) emissions intensity	117		
	305-7	NO _x , SO _x , and other significant air emissions	117		
Effluents and Waste GRI 306: Effluents and Waste 2016	103-1/2/3 ¹⁾	DMA	42-43		Water use and water purification Resource efficiency
	306-1	Total water discharge by quality and destination	117-118		
	306-2	Total weight of waste by type and disposal method	118		
SOCIAL PERFORMANCE INDICATORS					
Employment GRI 401: Employment 2016	103-1/2/3 ¹⁾	DMA	40, 45		Human capital
	401-1	New employee hires and employee turnover	80, 120		
Labor/Management Relations GRI 402: Labor/Management Relations 2016	103-1/2/3 ¹⁾	DMA	40, 45		Human capital
	402-1	Minimum notice periods regarding operational changes	121		
Occupational Health and safety GRI 403: Occupational Health and Safety 2016	103-1/2/3 ¹⁾	DMA	40, 45		Occupational Health and safety
	403-1	Percentage of total workforce represented in formal joint management-worker health and safety committees	121		
	403-2	Rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities	121		
Training and Education GRI 404: Training and Education 2016	103-1/2/3 ¹⁾	DMA	40, 45		Human capital
	404-3	Percentage of employees receiving regular performance and career development reviews	120		
Diversity and Equal Opportunity GRI 405: Diversity and Equal Opportunity 2016	103-1/2/3 ¹⁾	DMA	40, 45		Human capital
	405-1	Composition of governance bodies and employee breakdown	46-47, 52-53, 80, 120		
	405-2	Ratio of basic salary and remuneration of women to men	120		
Non-discrimination GRI 406: Non-discrimination 2016	103-1/2/3 ¹⁾	DMA	40, 45		Business ethics Transparency
	406-1	Actions taken in incidents of discrimination	120		
Freedom of Association and Collective Bargaining GRI 407: Freedom of Association and Collective Bargaining 2016	103-1/2/3 ¹⁾	DMA	40, 45		Business ethics Transparency
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	120		
Child Labor GRI 408: Child Labor 2016	103-1/2/3 ¹⁾	DMA	40-41		Business ethics Transparency
	408-1	Measures taken to eliminate child labor in risk areas	120	No Essity sites were identified as high-risk sites by Sedex.	
Forced or Compulsory Labor GRI 409: Forced or Compulsory Labor 2016	103-1/2/3 ¹⁾	DMA	40-41		Business ethics Transparency
	409-1	Measures taken to eliminate forced or compulsory labor in risk areas	120		
Human rights GRI 412: Human Rights Assessment 2016	103-1/2/3 ¹⁾	DMA	40-41		Human rights Business ethics Transparency
	412-2	Employee training on human rights	120	Work in the area of human rights takes many different forms via training sessions, for example, through the Code of Conduct.	
Supplier Social Assessment GRI 414: Supplier Social Assessment 2016	103-1/2/3 ¹⁾	DMA	40, 43		Human rights Business ethics Transparency
	414-2	Significant potential and actual negative impacts in the supply chain and actions taken	119		
Marketing and Labeling GRI 417: Marketing and Labeling 2016	103-1/2/3 ¹⁾	DMA	17		Customer and consumer satisfaction Product safety
	417-1	Product information required by procedures	42		

¹⁾ GRI 103: Management Approach 2016

AUDITOR'S REPORT ON THE LIMITED REVIEW AND AUDIT OF THE SUSTAINABILITY REPORT OF ESSITY AKTIEBOLAG (PUBL)

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

To Essity AB (publ), corp id 556325-5511

INTRODUCTION

We have been engaged by the Board of Essity Aktiebolag (publ) to undertake a combined assurance engagement of the Sustainability Report for Essity Aktiebolag (publ) for the year 2018. Essity Aktiebolag (publ) has defined the scope of the Sustainability Report to the pages referred to in the GRI index on pages 127–128.

RESPONSIBILITIES OF THE BOARD AND EXECUTIVE MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as defined on page 114, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the Sustainability Report based on the assurance procedures we have performed. Our engagement is limited to historical financial information and does therefore not include future oriented information.

We conducted our engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information. The engagement includes a limited assurance engagement on the complete Sustainability Report and audit on fossil fuels and grid supply data on page 117. The objective of an audit is to obtain reasonable assurance that the information is free of material misstatements. A reasonable assurance engagement includes examining, on a test basis, evidence supporting the quantitative and qualitative information in the Sustainability Report. A limited assurance engagement consists of making inquiries, primarily of persons

responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. A limited assurance engagement is different from and substantially less in scope than reasonable assurance conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Essity Aktiebolag (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The conclusion based on our limited assurance procedures does not provide the same level of assurance as the conclusion of our reasonable assurance procedures. Since this engagement is combined, our conclusions regarding reasonable assurance and limited assurance are presented separately below.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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

CONCLUSIONS

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

In our opinion the information in the Sustainability Report which has been subject to our reasonable assurance procedures have, in all material respects, been prepared in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm, 21 February 2019
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Outi Alestalo
Expert member of FAR