

Financial statements including notes

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

BS	Balance sheet
EQ	Equity
IS	Income statement
CI	Statement of comprehensive income
CF	Cash flow statement
OCF	Operating cash flow statement

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Parent company.....108**

Parent company income statement

Parent company statement of
comprehensive income

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Consolidated income statement ^{IS}

	Note	2019		2018		2017	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Net sales	B1, B2	128,975	12,193	118,500	11,565	109,265	11,343
Cost of goods sold	B3	-90,876	-8,591	-85,058	-8,301	-76,899	-7,983
Items affecting comparability – cost of goods sold	B2, B3	-243	-23	-1,437	-140	-509	-53
Gross profit		37,856	3,579	32,005	3,124	31,857	3,307
Sales, general and administration	B3	-22,319	-2,110	-20,570	-2,008	-19,130	-1,986
Items affecting comparability – sales, general and administration	B2, B3	-470	-45	62	6	-346	-36
Share of profits of associated companies and joint ventures	B3	60	6	63	6	169	18
Operating profit before amortization of acquisition-related intangible assets (EBITA)		15,127	1,430	11,560	1,128	12,550	1,303
Amortization of acquisition-related intangible assets	B3	-778	-73	-732	-71	-560	-58
Items affecting comparability – acquisition-related intangible assets	B2, B3	-	-	-69	-7	-85	-9
Operating profit		14,349	1,357	10,759	1,050	11,905	1,236
Financial income	E7	106	10	91	9	158	16
Financial expenses	E7	-1,415	-134	-1,248	-122	-1,340	-139
Profit before tax		13,040	1,233	9,602	937	10,723	1,113
Income taxes	B5	-2,828	-268	-1,050	-102	-1,938	-201
Profit for the period		10,212	965	8,552	835	8,785	912
Earnings attributable to:							
Owners of the Parent company		9,216	871	7,886	770	8,116	843
Non-controlling interests		996	94	666	65	669	69
Earnings per share – owners of the Parent company							
Earnings per share before and after dilution effects		13.12	1.2	11.23	1.1	11.56	1.2
Dividend per share, SEK		6.25 ²⁾		5.75		5.75	
Average number of shares before and after dilution, million		702.3		702.3		702.3	

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.58 (10.25; 9.63) was used.

²⁾ Board proposal.

Consolidated statement of comprehensive income ^{CI}

SEKm	2019	2018	2017			
IS Profit for the period	10,212	8,552	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	482	-1,036	1,061			
Fair value through comprehensive income	6	-5	-			
Income tax attributable to components in other comprehensive income	52	176	-218			
	540	-865	843			
Items that have been or may be reclassified subsequently to the income statement						
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity	-725	471	35			
Transferred to profit or loss for the period	112	-378	-56			
Transferred to cost of hedged investments	-	-	10			
Translation differences in foreign operations	2,095	2,080	320			
Gains/losses from hedges of net investments in foreign operations	-168	-122	-1,968			
Other comprehensive income from associated companies	-14	23	-22			
Income tax attributable to components in other comprehensive income	179	4	439			
	1,479	2,078	-1,242			
Other comprehensive income for the period, net of tax	2,019	1,213	-399			
Total comprehensive income for the period	12,231	9,765	8,386			
Total comprehensive income attributable to:						
Owners of the Parent company	11,006	8,893	8,029			
Non-controlling interests	1,225	872	357			
By operating segment						
SEKm	Net sales			Adjusted EBITA¹⁾		
	2019	2018	2017	2019	2018	2017
Personal Care	48,340	45,342	40,586	6,746	6,354	5,937
Consumer Tissue	49,904	45,125	42,014	5,321	3,331	4,084
Professional Hygiene	30,731	28,017	26,700	4,463	3,841	4,004
Other	0	16	-35	-690	-591	-620
Total	128,975	118,500	109,265	15,840	12,935	13,405

¹⁾ Excluding items affecting comparability.

Consolidated statement of change in equity **EQ**

SEKm	2019	2018	2017
Attributable to owner of the Parent company			
Value, January 1	47,141	42,289	33,204
Effect attributable to changed accounting standard IFRS 9	–	–9	–
Tax effect attributable to changed accounting standard IFRS 9	–	2	–
CI Total comprehensive income for the period	11,006	8,893	8,029
Dividend	–4,038	–4,038	–
Transactions with shareholders (for further information, see note G4 Transactions with related parties on page 107)	–	–	842
Private placement to non-controlling interests	2	3	504
Private placement to non-controlling interests, dilution	–	–	–290
Transferred to cost of hedged investments	14	1	–
BS Value, December 31	54,125	47,141	42,289
Non-controlling interests			
Value, January 1	7,758	7,281	6,376
CI Total comprehensive income for the period	1,225	872	357
Dividend	–336	–397	–285
Private placement to non-controlling interests	2	2	465
Private placement to non-controlling interests, dilution	–	–	290
Divestment of non-controlling interests	27	–	–
Acquisition of non-controlling interests	–	–	78
BS Value, December 31	8,676	7,758	7,281
BS Total equity, value December 31	62,801	54,899	49,570

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

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

Note	2019		2018		2017	
	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
IS Net sales	128,975	12,193	118,500	11,565	109,265	11,343
Operating expenses	–106,416	–10,060	–100,165	–9,776	–90,867	–9,433
Operating surplus	22,559	2,133	18,335	1,789	18,398	1,910
Adjustment for non-cash items	373	35	235	23	67	7
Operating cash surplus	22,932	2,168	18,570	1,812	18,465	1,917
Change in						
Inventories	–194	–18	–1,017	–99	–1,703	–177
Operating receivables	–1,949	–184	–344	–34	1,522	158
Operating liabilities	2,502	237	390	38	–559	–58
Change in working capital	359	35	–971	–95	–740	–77
Investments in non-current assets, net	–5,707	–540	–6,781	–660	–6,012	–624
Restructuring costs, etc.	–1,494	–141	–918	–90	–1,091	–113
Operating cash flow before investments in operating assets through leases	16,090	1,522	9,900	967	10,622	1,103
Investments in operating assets through leases	–451	–43	–	–	–	–
Operating cash flow	15,639	1,479	9,900	967	10,622	1,103
Financial items E7	–1,309	–124	–1,157	–113	–1,182	–123
Income taxes paid B5	–1,130	–107	–2,466	–241	–2,971	–308
Other	8	1	86	8	175	18
Cash flow from current operations	13,208	1,249	6,363	621	6,644	690
Acquisitions of Group companies and other operations F6	–143	–13	–694	–68	–26,045	–2,704
Divestments of Group companies and other operations F6	220	21	68	7	29	3
Cash flow from acquisitions and divestments	77	8	–626	–61	–26,016	–2,701
Cash flow before transactions with shareholders	13,285	1,257	5,737	560	–19,372	–2,011
Private placement to non-controlling interests	4	0	5	0	28	3
Dividend to non-controlling interests E8	–336	–32	–397	–39	–285	–30
Dividend E8	–4,038	–382	–4,038	–394	–	–
Transactions with shareholders	–	–	–	–	838	87
Net cash flow	8,915	843	1,307	127	–18,791	–1,951
Net debt	2019		2018		2017	
	SEKm	EURm	SEKm	EURm	SEKm	EURm
Net debt, January 1²⁾	–54,404	–5,294	–52,467	–5,332	–35,173	–3,680
Changed opening balance for net debt due to IFRS 16 Leases ¹⁾	–3,786	–358	–	–	–	–
Net cash flow ¹⁾	8,915	843	1,307	127	–18,791	–1,951
Remeasurements to equity ¹⁾	488	46	–1,041	–102	1,061	110
Investments in non-operating assets through leases ¹⁾	–434	–41	–	–	–	–
Translation differences	–1,719	–82	–2,203	13	436	189
Net debt, December 31²⁾	–50,940	–4,886	–54,404	–5,294	–52,467	–5,332

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.58 (10.25; 9.63) was used.

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.43 (10.28; 9.84) was used for net debt.

Comments on the consolidated operating cash flow statement As of 2019, strategic capital expenditures are recognized together with current capital expenditures and are included in Investments in non-current assets, net. Previously, strategic capital expenditures were recognized below Cash flow from current operations together with acquisitions and divestments. The effect of the restatement of comparative periods entailed a decrease in Operating cash flow and Cash flow from current operations of SEK 2,424m for full-year 2018 and SEK 2,101m for full-year 2017. Net cash flow is unchanged for periods in the preceding year. Investments in operating assets through leases are recognized separately and a subtotal for operating cash flow before these investments has been introduced into the Operating cash flow statement. Investments in non-operating assets through leases do not constitute part of operating cash flow but are instead recognized as a change in net debt. The initial effect of the transition to IFRS 16 is also recognized on a line in change in net debt.

Consolidated cash flow statement ^{CF}

	Note	2019		2018		2017	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Operating activities							
IS Operating profit		14,349	1,357	10,759	1,050	11,905	1,236
T:1 Adjustment for non-cash items		8,193	774	7,562	738	6,413	666
		22,542	2,131	18,321	1,788	18,318	1,902
T:3 Interest paid		-1,010	-95	-818	-80	-810	-84
T:3 Interest received		105	10	85	8	156	16
Other financial items		-420	-40	-408	-39	-454	-47
Change in liabilities relating to restructuring programs, etc.		-1,095	-104	-583	-57	-770	-80
Paid tax	B5	-1,130	-107	-2,466	-241	-2,971	-308
Cash flow from operating activities before changes in working capital		18,992	1,795	14,131	1,379	13,469	1,399
Cash flow from changes in working capital							
Change in							
Inventories		-194	-18	-1,017	-99	-1,703	-177
Operating receivables		-1,949	-184	-344	-34	1,522	158
Operating liabilities		2,502	237	390	38	-559	-58
Cash flow from operating activities		19,351	1,830	13,160	1,284	12,729	1,322
Investing activities							
Acquisitions of Group companies and other operations	F6	-143	-14	-461	-45	-13,070	-1,357
Divestments of Group companies and other operations	F6	5	0	68	7	29	3
T:2 Investments in intangible assets and property, plant and equipment		-5,908	-559	-6,882	-672	-6,125	-636
T:2 T:3 Paid interest capitalized in intangible assets and property, plant and equipment		-39	-4	-24	-2	-35	-4
Sale of property, plant and equipment		239	23	134	13	152	16
Loans granted to external parties		-62	-6	-	-	-222	-23
Repayment of loans from external parties		-	-	178	17	-	-
Cash flow from investing activities		-5,908	-560	-6,987	-682	-19,271	-2,001
Financing activities							
Private placement to non-controlling interests		4	0	5	0	28	3
Acquisition of non-controlling interests	F6	-	-	-	-	-2	0
Change, receivables from Group companies		-	-	-	-	952	99
Loans raised		2,448	231	4,386	428	31,037	3,222
Amortization of debt		-11,708	-1,107	-7,295	-711	-26,047	-2,704
Dividend to non-controlling interests	E8	-336	-32	-397	-39	-285	-30
Dividend	E8	-4,038	-382	-4,038	-394	-	-
Transactions with shareholders		-	-	-	-	838	87
Cash flow from financing activities		-13,630	-1,290	-7,339	-716	6,521	677
Cash flow for the period		-187	-20	-1,166	-114	-21	-2
Cash and cash equivalents, January 1 ²⁾		3,008	293	4,107	418	4,244	444
Translation differences in cash and cash equivalents		107	8	67	-11	-116	-24
Cash and cash equivalents, December 31 ²⁾	E2	2,928	281	3,008	293	4,107	418

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.58 (10.25; 9.63) was used.

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.43 (10.28; 9.84) was used.

Comments on the consolidated cash flow statement Until 2018, payments were recognized for pension plans with a surplus in cash flow from Investing activities and payments for pension plans with a deficit in cash flow from Financing activities. From 2019, all payments for pensions are recognized in cash flow from Financing activities given that Essity has a net pension liability. The change means that the comparative periods of 2018 and 2017 were restated. In 2018, cash flow from Investing activities increased SEK 518m while cash flow from Financing activities decreased SEK 518m. In 2017, cash flow from Investing activities increased SEK 65m while cash flow from Financing activities decreased SEK 65m. Cash flow from operating activities is unchanged for the periods.

For information about the Group's liquidity reserve, refer to the Risk and risk management section on page 34.

T:1 Adjustment for non-cash items

SEKm	2019	2018	2017
Depreciation/amortization and impairment of non-current assets	7,529	6,708	6,110
Gain/loss on asset sales and swaps	24	35	8
Gain/loss on divestments	160	-69	-17
Non-cash items relating to efficiency program	128	669	3
Revaluation of previously owned shares upon acquisition	-	-225	-72
Change in provision for ongoing competition case	-	95	-248
Change in provision for tax of a non-recurring nature on non-current assets	-	-288	459
Impairment of participations in associated companies	-	278	-
Other	352	359	170
Total	8,193	7,562	6,413

T:2 Investments in intangible assets and property, plant and equipment including paid capitalized interest

SEKm	2019	2018	2017
Measures to raise the capacity level of operations (Strategic capital expenditures)	-1,431	-2,424	-2,101
Measures to uphold capacity level (Current capital expenditures)	-4,516	-4,490	-4,064
Investments through finance leases	-	8	5
Total	-5,947	-6,906	-6,160

T:3 Interest paid, SEKm

SEKm	2019	2018	2017
Paid interest including paid interest capitalized in intangible assets and property, plant and equipment recognized in Investing activities	-1,049	-842	-845
Interest received	105	85	156
Total	-944	-757	-689

Change in liabilities attributable to financing activities¹⁾

SEKm	Value at January 1	Cash flow	Acquisitions/divestments	Translation differences	Actuarial gains/losses	Effect of IFRS 16 Leases	Other changes	Value at December 31
2019								
Non-current and current financial liabilities	54,327	-8,498	-214	1,793	-	3,786	868 ²⁾	52,062
Provisions for pensions including surplus in funded pension plans	4,141	-659	-1	26	-482	-	-	3,025
Assets for hedging financial liabilities included in cash flow from financing activities	-846	-103	-	1	-	-	-	-948
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	57,622	-9,260	-215	1,820	-482	3,786	868	54,139
2018								
Non-current and current financial liabilities	54,838	-2,913	231	2,145	-	-	26 ³⁾	54,327
Provisions for pensions including surplus in funded pension plans	3,393	-420	2	130	1,036	-	-	4,141
Assets for hedging financial liabilities included in cash flow from financing activities	-1,269	424	-	-1	-	-	-	-846
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	56,962	-2,909	233	2,274	1,036	-	26	57,622
2017								
Non-current and current financial liabilities	36,873	5,776	12,730	-613	-	-	72 ³⁾	54,838
Provisions for pensions including surplus in funded pension plans	4,938	-795	311	-	-1,061	-	-	3,393
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 including surplus in funded pension plans attributable to financing activities excluding receivables from and liabilities to Group companies	40,535	4,989	13,041	-614	-1,061	-	72	56,962
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 including surplus in funded pension plans attributable to financing activities including receivables from and liabilities to Group companies	39,584	5,941	13,041	-615	-1,061	-	72	56,962

¹⁾ From 2019, all payments for pensions are recognized in cash flow from financing activities, see comments on the consolidated cash flow statement on the previous page.

²⁾ Other changes 2019 relate to change in accrued interest SEK -17m, change in liability related to financial leases in accordance with IFRS 16 of SEK 885m, of which SEK 451m relates to operating assets and SEK 434m to non-operating assets.

³⁾ Other changes 2018 relate to change in accrued interest of SEK +17m and an adjustment for a financial lease liability of SEK +9m. Other changes 2017 relate to change in accrued interest of SEK +72m.

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

SEKm	2019	2018	2017
Cash flow from operating activities			
Cash flow from operating activities	19,351	13,160	12,729
Adjustments			
Current capital expenditures	-5,707	-6,781	-6,012
Accrued interest	17	-16	-73
Investments in operating assets through leases	-451	-	-
Other	-2	-	-
Cash flow from current operations according to consolidated operating cash flow statement	13,208	6,363	6,644
Cash flow from investing activities			
Cash flow from investing activities	-5,908	-6,987	-19,271
Adjustments			
Current capital expenditures	5,707	6,781	6,012
Loans granted to external parties	62	-	222
Repayment of loans from external parties	-	-178	-
Net debt in acquired and divested companies	215	-234	-13,034
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 acquisitions and divestments according to consolidated operating cash flow statement	77	-626	-26,016
Cash flow for the period			
Cash flow for the period	-187	-1,166	-21
Adjustments			
Amortization of debt	11,708	7,295	26,047
Loans raised	-2,448	-4,386	-31,037
Loans granted to external parties	62	-	222
Repayment of loans from external parties	-	-178	-
Change, receivables from Group companies	-	-	-952
Net debt in acquired and divested operations	215	-234	-13,034
Investments through finance leases	-	-8	-5
Investments in operating assets through leases	-451	-	-
Settled financial debt pertaining to acquisitions in earlier years	-	-	62
Accrued interest	17	-16	-73
Other	-1	-	-
Net cash flow according to consolidated operating cash flow statement	8,915	1,307	-18,791

Consolidated balance sheet ^{BS}

		2019		2018		2017	
	Note	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
ASSETS							
Non-current assets							
Goodwill	D1	34,581	3,316	33,553	3,264	31,697	3,221
Other intangible assets	D1	21,182	2,031	21,475	2,089	21,424	2,177
Property, plant and equipment	D2	56,900	5,457	51,673	5,028	48,482	4,927
Participations in joint ventures and associated companies	B2, F3	865	83	777	76	1,062	108
Shares and participations	F5	8	1	29	3	32	3
Surplus in funded pension plans	C4	2,841	273	1,117	109	1,148	117
Non-current financial assets	E2	694	67	634	62	552	56
Deferred tax assets	B5	2,539	244	2,158	210	2,232	227
Other non-current assets		704	68	705	69	469	48
Total non-current assets		120,314	11,540	112,121	10,910	107,098	10,884
Current assets							
Inventories	D3	15,764	1,512	15,234	1,482	13,739	1,396
Trade receivables	E3	19,864	1,906	18,687	1,818	17,607	1,790
Current tax assets	B5	745	71	2,126	207	769	78
Other current receivables	D4	2,113	203	2,599	253	2,549	259
Current financial assets	E2	525	50	422	41	1,105	112
Non-current assets held for sale	G1	42	4	69	7	42	4
Cash and cash equivalents	E2	2,928	281	3,008	293	4,107	418
Total current assets		41,981	4,027	42,145	4,101	39,918	4,057
Total assets	B2	162,295	15,567	154,266	15,011	147,016	14,941
EQUITY AND LIABILITIES							
Equity							
Owners of the Parent company	E8						
Share capital		2,350	225	2,350	229	2,350	239
Reserves		6,284	603	5,003	487	3,154	321
Retained earnings		45,491	4,363	39,788	3,871	36,785	3,738
		54,125	5,191	47,141	4,587	42,289	4,298
Non-controlling interests		8,676	832	7,758	755	7,281	740
Total equity		62,801	6,023	54,899	5,342	49,570	5,038
Non-current liabilities							
Non-current financial liabilities	E4	43,079	4,131	43,500	4,233	47,637	4,841
Provisions for pensions	C4	5,866	563	5,258	512	4,541	461
Deferred tax liabilities	B5	6,545	628	7,272	707	7,090	721
Other non-current provisions	D6	541	52	1,694	165	1,481	151
Other non-current liabilities	D5	183	18	71	7	79	8
Total non-current liabilities		56,214	5,392	57,795	5,624	60,828	6,182
Current liabilities							
Current financial liabilities	E4	8,983	862	10,827	1,054	7,201	732
Trade payables		15,802	1,516	15,911	1,548	14,748	1,499
Current tax liabilities	B5	2,432	233	570	55	553	56
Current provisions	D6	1,065	102	1,472	143	1,547	157
Other current liabilities	D5	14,998	1,439	12,792	1,245	12,569	1,277
Total current liabilities		43,280	4,152	41,572	4,045	36,618	3,721
Total liabilities		99,494	9,544	99,367	9,669	97,446	9,903
Total equity and liabilities		162,295	15,567	154,266	15,011	147,016	14,941
Contingent liabilities and pledged assets, see Note G3 on page 106.							
Capital employed		113,741	10,910	109,303	10,635	102,037	10,370
Net debt		50,940	4,886	54,404	5,294	52,467	5,332

¹⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.43 (10.28; 9.84) was used.

A. ACCOUNTING PRINCIPLES AND USE OF ALTERNATIVE PERFORMANCE MEASURES

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 note.

Key assessments and assumptions **KAA** are presented under the respective note, see use of assessments on page 63.

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

BS	Balance sheet
EQ	Equity
IS	Income statement
CI	Statement of comprehensive income
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 accounts for both the Group and the Parent company relate to the fiscal year that ended on December 31, 2019. 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 2019

In this Annual Report, the Group applies the new and amended standards that came into effect from January 1, 2019.

IFRS 16 Leases

Accounting rules relating to leases changed as of January 1, 2019, when the new standard IFRS 16 Leases came into effect. Information regarding the effects of the changed rules for Essity is provided in Note G5 Changes due to new accounting rules on page 107. For accounting policies and additional information concerning leases, see Note G2 Leases on page 105.

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 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 years are not restated. As a result of the new interpretation, SEK 713m was reclassified from current and non-current provisions to tax liabilities in 2019.

New or amended accounting standards after 2019

A number of new and amended accounting standards 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.

These standards or interpretations published by IASB are not expected to have any impact on the Group's or the Parent company's financial statements.

IFRS 9 Financial instruments and IFRS 7 Financial instruments: Disclosures

Amendments to IFRS 9 and IFRS 7 were adopted on January 15, 2020 due to the Interest Rate Benchmark Reform. The amendments provide temporary exemptions from applying specific hedge accounting requirements for hedging relationships directly affected by this reform. The exemptions relate to hedge accounting and are to ensure that companies are not required to discontinue the hedging relationships due to uncertainties concerning the reform. The amendments will apply from January 1, 2020 though early adoption is permitted. Essity has chosen not to apply these changes early. Currently, the reform primarily impacts Essity's fair value hedges and EUR LIBOR interest rates. However, these hedges are expected to continue to be effective in the future. The implementation is, therefore, not expected to have a material impact on the Group's financial statements. For further information concerning derivatives and hedge accounting, see Note E6 Derivatives and hedge accounting on page 93.

USE OF ASSESSMENTS **KAA**

The preparation of financial statements in accordance with IFRS and generally accepted Swedish accounting principles requires assessments and assumptions to be made that affect recognized assets, liabilities, income and expenses 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:

Taxes, B5 Income taxes, page 78
Pensions, C4 Remuneration after employment, page 82
Goodwill, D1 Intangible assets, page 85
Provisions, D6 Other provisions, page 88
Leases, G2 Leases, page 105
Essity's assessments and assumptions are presented in the respective notes.

PRINCIPLES OF CONSOLIDATION

The Group's financial statements include the Parent Company and its Group companies, which comprise subsidiaries, joint ventures, associates and joint operations. Group companies are consolidated from the date the Group exercises control or influence over the company according to the definitions and accounting policies provided in Notes F1 Group companies on page 99, F3 Joint Ventures and Associated companies on page 100 and F4 Joint Operations on page 102. Divested Group companies are included in the consolidated accounts until the date the Group ceases to control or exercise influence over the companies. For additional information about accounting policies regarding acquisitions of Group companies and respective non-controlling interests, see Note F6 Acquisitions and divestments on page 103. Intra-Group transactions have been eliminated.

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.

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

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

Goodwill and fair value adjustments arising in connection with the acquisition of a foreign Group company are translated, 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 equity in other comprehensive income.

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

GOVERNMENT GRANTS

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

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES

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

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

pany 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	2019	2018	2017
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE			
EBITA	15,127	11,560	12,550
Items affecting comparability	713	1,375	855
Adjusted EBITA	15,840	12,935	13,405
Average capital employed	114,663	107,575	90,167
Adjusted return on capital employed, ROCE	13.8%	12.0%	14.9%

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 including the share of associated non-controlling interests.	
Equity per share	Equity in relation to the average number of shares outstanding that exist in Essity Aktiebolag (publ).	A measure of the amount of equity that exists per 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		2019	2018
CAPITAL EMPLOYED			2017
Total assets	162,295	154,266	147,016
Financial assets	-6,988	-5,181	-6,912
Non-current, non-interest-bearing liabilities	-7,269	-9,037	-8,650
Current, non-interest-bearing liabilities	-34,297	-30,745	-29,417
Capital employed	113,741	109,303	102,037
CAPITAL EMPLOYED			
Personal Care	44,268	41,768	39,447
Consumer Tissue	47,345	44,915	43,569
Professional Hygiene	22,996	22,153	20,034
Other	-868	467	-1,013
Capital employed	113,741	109,303	102,037
Non-IFRS performance measure	Description	Reason for use of the measure	
Capital turnover	Net sales for the year divided by average capital employed.	Shows in a clear manner how effectively capital is employed. Together with sales growth and the operating margin, the capital turnover ratio is a key measure for monitoring value creation.	
Working capital	The Group's and business areas' working capital is calculated as current operating receivables less current operating liabilities.	This measure shows how much working capital is tied up in the operations and can be put in relation to sales to understand how effectively tied-up working capital is used.	
SEKm		2019	2018
WORKING CAPITAL			2017
Inventories	15,764	15,234	13,739
Trade receivables	19,864	18,687	17,607
Other current receivables	2,113	2,599	2,549
Trade payables	-15,802	-15,911	-14,748
Other current liabilities	-14,998	-12,792	-12,569
Other	-159	-249	-677
Working capital	6,782	7,568	5,901

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		2019	2018	2017
NET DEBT				
Surplus in funded pension plans		2,841	1,117	1,148
Non-current financial assets		694	634	552
Current financial assets		525	422	1,105
Cash and cash equivalents		2,928	3,008	4,107
Financial assets		6,988	5,181	6,912
Non-current financial liabilities		43,079	43,500	47,637
Provisions for pensions		5,866	5,258	4,541
Current financial liabilities		8,983	10,827	7,201
Financial liabilities		57,928	59,585	59,379
Net debt		50,940	54,404	52,467
Non-IFRS performance measure	Description	Reason for use of the measure		
Debt/equity ratio	Expressed as net debt in relation to equity.	Shows financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.		
Debt payment capacity, %	Expressed as 12 months rolling cash surplus (see page 69) in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt.		
Adjusted debt payment capacity, %	Adjusted debt payment capacity expressed as rolling 12 months cash surplus (see page 69) in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.		
Net debt/EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA.	A financial measure that shows the company's capacity to repay its debt.		
Net debt/Adjusted EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA, excluding items affecting comparability.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.		
SEKm		2019	2018	2017
Debt/equity ratio, multiple		0.81	0.99	1.06
Debt payment capacity, %		38	25	26
Adjusted debt payment capacity, %		40	27	27
Net debt/EBITDA		2.33	3.11	2.91
Net debt/Adjusted EBITDA		2.25	2.96	2.83
PERFORMANCE MEASURES		Various types of performance measures and margin measures expressed as a percentage of sales		
Non-IFRS performance measure	Description	Reason for use of the measure		
Organic net sales	Underlying change in net sales compared with the preceding period attributable to changed volume, price or mix excluding changes attributable to exchange rate effects, acquisitions and divestments.	This measure is of major importance for management in its monitoring of underlying net sales driven by changes in volume, price and product mix for comparable units between different periods.		
SEKm		2019	2018	2017
ORGANIC NET SALES				
Personal Care				
Organic net sales		1,549	1,213	586
Exchange rate effects		1,623	1,173	48
Acquisitions/Divestments		-175	2,371	6,301
Recognized change		2,997	4,757	6,935
Consumer Tissue				
Organic net sales		2,754	1,089	231
Exchange rate effects		1,972	1,832	223
Acquisitions/Divestments		53	190	0
Recognized change		4,779	3,111	454
Professional Hygiene				
Organic net sales		1,010	516	411
Exchange rate effects		1,703	780	137
Acquisitions/Divestments		1	22	150
Recognized change		2,714	1,318	698
Group				
Organic net sales		5,297	2,868	1,169
Exchange rate effects		5,299	3,785	406
Acquisitions/Divestments		-121	2,582	6,452
Recognized change		10,475	9,235	8,027
ORGANIC NET SALES, %		2019	2018	2017
Previous period sales		118,500	109,265	101,238
Organic net sales		5,297	2,868	1,169
Total organic sales for the period		123,797	112,133	102,407
Organic net sales, %		4.5%	2.6%	1%

Non-IFRS performance measure	Description	Reason for use of the measure
Adjusted gross profit	Net sales minus cost of goods sold excluding items affecting comparability.	Gross profit shows the company's earnings before the effects of sales, general and administration. Adjusted gross profit excludes items affecting comparability.
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)	Calculated as operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets.	This measure is a complement to operating profit, as it shows the cash 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 property, plant and equipment 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 property, plant and equipment 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 is even adjusted for the impact of items affecting comparability.

SEKm	2019	2018	2017
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)			
Operating profit	14,349	10,759	11,905
Amortization of acquisition-related intangible assets	778	732	560
Depreciation/amortization	5,815	5,443	5,162
Depreciation right-of-use assets	884	–	–
Items affecting comparability, depreciation/amortization	0	0	2
Impairment	79	19	0
Items affecting comparability, impairment	–27	445	301
Items affecting comparability, impairment of acquisition-related intangible assets	–	69	85
EBITDA	21,878	17,467	18,015
Items affecting comparability excluding depreciation/amortization and impairment	740	930	554
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)	22,618	18,397	18,569
SEKm	2019	2018	2017
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)			
Operating profit	14,349	10,759	11,905
Amortization of acquisition-related intangible assets	778	732	560
Items affecting comparability, amortization of acquisition-related intangible assets	–	69	85
Operating profit before amortization of acquisition-related intangible assets (EBITA)	15,127	11,560	12,550
EBITA margin	11.7%	9.8%	11.5%
Items affecting comparability, cost of goods sold	243	1,437	509
Items affecting comparability, sales, general and administration	470	–62	346
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)	15,840	12,935	13,405
Adjusted EBITA margin	12.3%	10.9%	12.3%

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 cleared 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 sales, general and administration.
EBITA margin	Operating profit before amortization of acquisition-related intangible assets as a percentage of net sales for the period.	EBITA margin 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 period.	Adjusted EBITA margin is a good complement to enable margin comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth, excluding items affecting comparability.
Operating margin	Operating profit as a percentage of net sales for the period.	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 period.	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 units and provides a better understanding of earnings performance of the operations than the non-adjusted operating profit.

SEKm	2019	2018	2017
ADJUSTED OPERATING PROFIT			
Operating profit	14,349	10,759	11,905
Items affecting comparability	713	1,444	940
Adjusted operating profit	15,062	12,203	12,845
Adjusted operating margin	11.7%	10.3%	11.8%

Non-IFRS performance measure	Description	Reason for use of the measure
Financial net margin	Net financial items divided by net sales.	This measure shows the relationship between net financial items and net sales.
Adjusted profit before tax	Calculated as profit before tax, excluding items affecting comparability.	This is a useful measure for showing total profit for the company including financing costs, but not affected by taxes and items that affect comparability with previous periods.
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	2019	2018	2017
ADJUSTED TAX			
Tax	-2,828	-1,050	-1,938
Tax relating to items affecting comparability	-159	-440	-253
Adjusted tax	-2,987	-1,490	-2,191

Non-IFRS performance measure	Description	Reason for use of the measure
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 company 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 company, 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	
Cash earnings	Cash earnings consist of the net of operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA), financial income and expenses and income taxes.	A financial measure used when calculating the company's debt payment capacity, see page 66.	
Adjusted cash earnings	Adjusted cash earnings consist of the net of adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA), financial income and expenses and income taxes.	A financial measure used when calculating the company's debt payment capacity, see page 66.	
Operating cash surplus	Calculated as operating profit with a reversal of depreciation, amortization and impairment of property, plant and equipment and intangible assets. Share of profits of associated companies 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.	
Investments in non-current assets, net	Investments in non-current assets, net, to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature and strategic investments in sites.	Shows the size of the capital expenditures required to maintain existing manufacturing capacity and investments in expansion and other growth measures.	
Operating cash flow before investments in operating assets through leases	Consists of the sum of operating cash surplus and change in working capital, with deductions for net investments in non-current assets and restructuring costs.	This is an important control measure of operating activities that the units have control over themselves.	
Investments in operating assets through leases	Additional right-of-use of assets directly attributable to operating activities. Mainly leases for distribution centers.	Investments in operating assets through leases is part of the follow-up of cash flow that the units have control over themselves.	
Operating cash flow	Consists of the sum of operating cash surplus and change in working capital, with deductions for net investments in non-current assets and restructuring costs and investments in operating assets through leases.	This is an important control measure of operating activities that the units have control over themselves.	
Investments in non-operating assets through leases	Additional right-of-use of assets that are not directly attributable to operating activities. Mainly leases for offices.	Investments through leases in non-operating assets that the units do not have control over themselves. These are recognized in the operating cash flow statement as a legend entry in changes to net debt.	
SEKm	2019	2018	2017
OPERATING CASH FLOW			
Personal Care			
Operating cash surplus	8,785	7,821	7,238
Change in working capital	401	-410	-237
Investments in non-current assets, net	-1,866	-2,134	-2,073
Restructuring costs, etc.	-644	-271	-266
Operating cash flow before investments in operating assets through leases	6,676	5,006	4,662
Investments in operating assets through leases	-181		
Operating cash flow	6,495	5,006	4,662
Consumer Tissue			
Operating cash surplus	8,107	5,612	6,163
Change in working capital	-553	94	-425
Investments in non-current assets, net	-2,239	-3,073	-2,889
Restructuring costs, etc.	-251	-245	-139
Operating cash flow before investments in operating assets through leases	5,064	2,388	2,710
Investments in operating assets through leases	-194		
Operating cash flow	4,870	2,388	2,710
Professional Hygiene			
Operating cash surplus	6,589	5,630	5,649
Change in working capital	438	-565	73
Investments in non-current assets, net	-1,402	-1,337	-888
Restructuring costs, etc.	-603	-365	-592
Operating cash flow before investments in operating assets through leases	5,022	3,363	4,242
Investments in operating assets through leases	-84		
Operating cash flow	4,938	3,363	4,242

COMMENTS ON OPERATING CASH FLOW

As of 2019, strategic capital expenditures are recognized together with current capital expenditures and are included in Investments in non-current assets, net. Previously, strategic capital expenditures were recognized under operating cash flow. The effect of the restatement of comparative periods entailed a decrease in operating cash flow for the Group of SEK 2,424m for 2018 and SEK 2,100m for 2017.

Amounts for the segments have been changed as follows: Operating cash flow for Personal Care has decreased SEK 806m for 2018 and SEK 791m for 2017. Operating cash flow for Consumer Tissue decreased SEK 1,303m for 2018 and SEK 1,140m for 2017. Operating cash flow for Professional Hygiene decreased SEK 315m for 2018 and SEK 169m for 2017.

B. SALES AND EARNINGS

B1. NET SALES – REVENUES FROM CONTRACTS WITH CUSTOMERS

AP KAA ACCOUNTING POLICIES AND KEY ASSESSMENTS AND ASSUMPTIONS

Essity applies IFRS 15 Revenue from Contracts with Customers that regulates revenue recognition and disclosure requirements for commercial agreements (contracts) with customers. The standard pertains to commercial agreements with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently.

Revenue recognition

Essity primarily generates revenues from the sale of finished products to, for example, the retail sector, industries and the healthcare sector. Revenue from sales of services occurs to a certain extent but only accounts for a small portion of the Group's sales. Essity's operations and sales are divided into various segments that sell different products in several regions. The product portfolio is diversified but the principles for revenue recognition are the same for all segments. For a description of the products, see the section on Essity's three business areas, Personal Care, Consumer Tissue and Professional Hygiene on pages 22–27. 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. Invoicing is normally done in connection with, or directly after, delivery and recognized at a specific point in time, no revenue is recognized over time. Essity has chosen to apply the practical expedient in IFRS 15 not to disclose the remaining performance obligations that have a term of less than one year.

Determination of transaction price

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

The outcome of volume discounts is continuously assessed over the year and reduces recognized revenues in parallel with a provision being made that includes the estimated discount rate for each customer. At year end, the final volume discounts are determined on the basis of the actual sales volume and the provision is reduced in the following year when the discount

is credited to the customer. Marketing subsidies entail that the customer receives a discount for carrying out marketing activities. In certain cases, Essity reimburses customers in the retail sector in accordance with contracts for loss of income due to discount 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 essentially grants customers no right of return except when the products are faulty. When the right arises to return goods sold, a liability is recognized for the repayment that is expected to be made and an asset is recognized for the right to recover the goods. Past experience is used to estimate the share of returns at the time of sale and revenue is only recognized for products that are not expected to be returned. The total transaction price is estimated at the amount that Essity deems will accrue to the company when the contract is signed with respect to volume discounts and any marketing subsidies, discount vouchers and returns. The transaction price is updated if the conditions forming the basis of the estimate have significantly changed.

Trade receivables

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

Contract liabilities

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

Assets that have arisen from expenses to fulfill contracts with customers

In the Professional Hygiene business area, Essity supplies dispensers to customers to fulfill contracts for delivery of the business area's other products (refer to page 26). Expenses for these dispensers are recognized as prepaid expenses under Other non-current assets since Essity expects to cover these expenses through the sale of the business area's other products. The dispensers are depreciated over three years according to the average term of the contract with customers. Recognition takes place in accordance with the rules in IFRS 15 since the expense is directly linked to securing contracts with customers. The rules on Property, Plant and Equipment in IAS 16 and IAS 2 Inventories are not deemed to be applicable since there are no economic benefits associated with the dispenser after it has been delivered to the customer.

The tables below show consolidated net sales broken down by operating segment: Personal Care, Consumer Tissue and Professional Hygiene. Net sales in geographic markets reflects the perspective – sold to, which is based on sales to the countries where Essity has its customers, known as its "footprint." See page 75 for further information.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
2019					
Revenue from contracts with customers					
Sale of finished products	48,325	49,904	30,726	0	128,955
Sale of services	15		5		20
IS Total revenues from contracts with customers	48,340	49,904	30,731	0	128,975
Geographic markets					
Europe	27,417	29,880	13,322		70,619
North America	5,173	5	13,158		18,336
Latin America	8,869	5,946	1,816		16,631
Asia	5,007	13,902	2,178		21,087
Other	1,874	171	257	0	2,302
IS Total revenues from contracts with customers	48,340	49,904	30,731	0	128,975

B1. REVENUE FROM CONTRACTS WITH CUSTOMERS, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
Product category					
Incontinence Products	21,205				21,205
Baby Care	9,183				9,183
Feminine Care	8,361				8,361
Medical Solutions	8,936				8,936
Consumer Tissue		49,904			49,904
Professional Hygiene			30,731	0	30,731
Other	655				655
IS Total revenues from contracts with customers	48,340	49,904	30,731	0	128,975
2018					
Revenue from contracts with customers					
Sale of finished products	45,333	45,125	28,011	16	118,485
Sale of services	9		6		15
IS Total revenues from contracts with customers	45,342	45,125	28,017	16	118,500
Geographic markets					
Europe	26,327	28,107	12,383		66,817
North America	4,788	22	11,837		16,647
Latin America	7,933	5,207	1,575		14,715
Asia	4,611	11,624	1,935		18,170
Other	1,683	165	287	16	2,151
IS Total revenues from contracts with customers	45,342	45,125	28,017	16	118,500
Product category					
Incontinence Products	19,355				19,355
Baby Care	9,079				9,079
Feminine Care	7,506				7,506
Medical Solutions	8,578				8,578
Consumer Tissue		45,125			45,125
Professional Hygiene			28,017		28,017
Other	824	-		16	840
IS Total revenues from contracts with customers	45,342	45,125	28,017	16	118,500
2017¹⁾					
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.

Trade receivables and contractual liabilities

SEKm	Note	2019	2018	2017
TE3:1 Trade receivables	E3	19,864	18,687	17,607
Contractual liabilities – bonuses and discounts to customers	D5	6,038	5,269	4,829
Contractual liabilities – advance payments from customers		157	96	99

Trade receivables decreased by SEK 135m compared with 2018 due to the divestment in Turkey but increased overall by SEK 1,177m in 2019 in line with rising sales. With reference to bonuses and discounts to customers in the comparative years 2018 and 2017, amounts were corrected compared with

the annual accounts for 2018 by SEK +496m and SEK +428m, respectively. See Note D5 on page 88.

Assets that have arisen from expenses to fulfill contracts with customers

SEKm	2019	2018	2017
TE3:2 Value, January 1	538	484	506
Costs for the year	408	358	351
Depreciation	-377	-344	-328
Translation differences	16	40	-45
Value, December 31	585	538	484

B2. SEGMENT REPORTING

AP ACCOUNTING PRINCIPLES

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

Essity's offering in Personal Care includes Incontinence Products, Medical Solutions, Baby Care and Feminine Care. Products are sold under brands such as TENA, JOBST, Leukoplast, Libero, Libresse, Nosotras and Saba, and as retailer brands. Distribution channels are the retail trade, pharmacies, medical device stores, hospitals, distributors and care institutions and online sales.

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

Essity's offering in Professional Hygiene comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products as well as service and maintenance. Essity also offers digital solutions, such as Internet of Things sensor technology that enables data-driven cleaning. Customers consist of companies and office buildings, universities, healthcare facilities, industries, restaurants, hotels, stadiums and other public venues. Distribution channels for the products consist of distributors and 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.

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 operating profit, excluding items affecting comparability.

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

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total Group
2019						
REVENUES						
IS TB2:2 Net sales	48,340	49,904	30,731	0		128,975
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	6,746	5,321	4,463	-690		15,840
Amortization of acquisition-related intangible assets	-732	-7	-39			-778
Adjusted operating profit/loss per operating segment	6,014	5,314	4,424	-690		15,062
TB2:1 Items affecting comparability	-345	-118	-88	-162		-713
IS Operating profit/loss	5,669	5,196	4,336	-852		14,349
IS Financial income						106
IS Financial expenses						-1,415
IS Tax expense for the period						-2,828
IS Profit for the period						10,212
OTHER DISCLOSURES						
Assets	60,704	64,094	32,252	3,035	-5,756	154,329
BS Participations in joint ventures and associated companies	226	514	123	2		865
Unallocated financial assets				7,101		7,101
BS Total assets	60,930	64,608	32,375	10,138	-5,756	162,295
Net investments/acquisitions	-2,061	-2,432	-1,486	-322		-6,301
Depreciation/amortization	-2,772	-2,706	-1,852	-147		-7,477
Expenses, in addition to depreciation/amortization, not matched by payments	10	31	339	-7		373
NET SALES BY REGION						
Europe	57%	60%	43%			55%
North America	11%	-	43%			14%
Latin America	18%	12%	6%			13%
Asia	10%	28%	7%			16%
Other	4%	-	1%			2%
Total	100%	100%	100%	0%	0%	100%
Mature markets	63%	53%	80%			63%
Emerging markets	37%	47%	20%			37%
Total	100%	100%	100%	0%	0%	100%

B2. SEGMENT REPORTING, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total Group
2018						
REVENUES						
IS TB2:2 Net sales	45,342	45,125	28,017	16		118,500
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	6,354	3,331	3,841	-591	-	12,935
Amortization of acquisition-related intangible assets	-691	-5	-36	-	-	-732
Adjusted operating profit/loss per operating segment	5,663	3,326	3,805	-591	-	12,203
TB2:1 Items affecting comparability	-123	-1,046	-494	219	-	-1,444
IS Operating profit/loss	5,540	2,280	3,311	-372	-	10,759
IS Financial income						91
IS Financial expenses						-1,248
IS Tax expense for the period						-1,050
IS Profit for the period						8,552
OTHER DISCLOSURES						
Assets	57,688	61,020	30,768	5,071	-6,239	148,308
BS Participations in joint ventures and associated companies	196	486	94	1	-	777
Unallocated financial assets				5,181		5,181
BS Total assets	57,884	61,506	30,862	10,253	-6,239	154,266
Investments/acquisitions	-2,521	-3,381	-1,337	-236	-	-7,475
Depreciation/amortization	-2,126	-2,287	-1,643	-119	-	-6,175
Expenses, in addition to depreciation/amortization, not matched by payments	29	36	194	-24	-	235
NET SALES BY REGION						
Europe	58%	62%	44%			56%
North America	11%	-	42%			14%
Latin America	17%	12%	6%			13%
Asia	10%	26%	7%			15%
Other	4%	-	1%			2%
Total	100%	100%	100%			100%
Mature markets	64%	56%	81%			65%
Emerging markets	36%	44%	19%			35%
Total	100%	100%	100%			100%
2017						
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 associated companies	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	-28,118	-2,889	-888	-162	-	-32,057
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%

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

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other	Total
2019					
Items affecting comparability – cost of goods sold	-123	-62	-58	-	-243
Items affecting comparability – sales, general and administration	-222	-56	-30	-162	-470
Items affecting comparability – acquisition-related intangible assets	-	-	-	-	-
Total	-345	-118	-88	-162	-713
2018					
Items affecting comparability – cost of goods sold	-157	-812	-468	-	-1,437
Items affecting comparability – sales, general and administration	116	-248	-26	220	62
Items affecting comparability – acquisition-related intangible assets	-82	14	-	-1	-69
Total	-123	-1,046	-494	219	-1,444
2017					
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

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 2019, 2018 or 2017 from which it generated income that accounted for more than 10% of the company's net sales. Essity's ten largest customers account for 23.7% (23.6; 22.9) of the company's sales.

B2a. SEGMENT REPORTING, CONT.

	Net sales – sold to ¹⁾						Net sales – sold by ¹⁾					
	2019		2018		2017		2019		2018		2017	
TB2:2 Group by country	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Sweden	2,774	2	2,636	2	2,518	2	3,338	3	3,143	2	2,908	3
EU excl. Sweden												
Germany	13,884	11	13,115	11	11,400	11	14,544	12	13,713	12	11,956	11
France	10,621	8	10,234	9	9,510	9	10,859	9	10,491	9	9,721	9
UK	9,279	7	8,421	7	7,832	7	9,394	7	8,492	7	7,865	7
Spain	6,004	5	6,005	5	5,665	5	6,103	5	6,087	5	5,748	5
Netherlands	3,966	3	3,696	3	3,286	3	4,121	3	3,892	3	3,503	3
Italy	3,762	3	3,541	3	3,236	3	4,028	3	3,907	3	3,636	3
Austria	1,911	2	1,824	2	1,713	2	2,114	2	2,003	2	1,802	2
Belgium	1,719	1	1,589	1	1,467	1	1,832	1	1,696	1	1,560	1
Finland	1,609	1	1,531	1	1,435	1	1,606	1	1,520	1	1,456	1
Denmark	1,280	1	1,151	1	995	1	1,246	1	1,098	1	967	1
Hungary	1,100	1	1,057	1	916	1	1,169	1	1,075	1	943	1
Poland	1,032	1	918	1	792	1	1,111	1	971	1	820	1
Czech Republic	698	1	633	1	570	1	668	1	607	1	546	1
Ireland	564	1	502	0	441	0	494	1	430	1	387	1
Greece	494	1	536	1	583	1	328	0	345	0	344	0
Romania	442	0	377	0	313	0	384	0	346	0	309	0
Portugal	414	0	392	0	358	0	352	0	332	0	299	0
Croatia	357	0	318	0	273	0	–	–	–	–	–	–
Slovakia	305	0	270	0	272	0	476	0	479	1	427	1
Lithuania	230	0	206	0	187	0	230	0	206	0	187	0
Rest of EU excl. Sweden	767	1	709	1	700	1	355	0	296	0	293	0
Total EU excl. Sweden	60,438	48	57,025	48	51,944	48	61,414	48	57,986	49	52,769	48
Rest of Europe												
Russia	3,380	3	3,225	3	3,209	3	3,613	3	3,440	3	3,443	3
Switzerland	1,448	1	1,347	1	1,299	1	1,398	1	1,295	1	1,252	1
Norway	1,344	1	1,271	1	1,184	1	1,269	1	1,211	1	1,144	1
Ukraine	418	0	338	0	288	0	369	0	298	0	255	0
Turkey	378	0	556	1	595	1	411	0	601	1	663	1
Rest of Europe, excl. EU	439	0	419	0	356	0	–	–	–	–	–	–
Total Rest of Europe	7,407	5	7,156	6	6,931	6	7,060	5	6,845	6	6,757	6
TOTAL EUROPE	70,619	55	66,817	56	61,393	56	71,812	56	67,974	57	62,434	57
North America												
USA	16,132	12	14,617	12	14,422	13	16,104	12	14,681	12	14,449	13
Canada	2,198	2	2,024	2	1,933	2	2,227	2	2,046	2	1,958	2
Rest of North America	6	0	6	0	5	0	–	–	–	–	–	–
TOTAL NORTH AMERICA	18,336	14	16,647	14	16,360	15	18,331	14	16,727	14	16,407	15
Latin America												
Mexico	6,051	5	4,822	4	4,223	4	6,655	5	5,355	5	4,736	4
Colombia	4,144	3	3,955	3	3,765	4	4,317	4	4,155	4	4,352	4
Ecuador	1,652	1	1,510	1	1,332	1	1,623	1	1,486	1	1,315	1
Chile	991	1	1,018	1	1,105	1	1,000	1	1,013	1	1,096	1
Brazil	637	1	606	1	658	1	637	1	605	1	658	1
Peru	590	1	462	1	241	0	581	1	425	0	16	0
Costa Rica	513	0	476	1	476	0	535	0	472	0	479	1
Dominican Republic	483	0	431	0	265	0	482	0	419	0	109	0
Argentina	381	0	374	0	410	0	395	0	386	0	417	0
Nicaragua	185	0	172	0	170	0	–	–	–	–	–	–
Rest of Latin America	1,004	1	889	1	771	1	324	0	235	0	105	0
TOTAL LATIN AMERICA	16,631	13	14,715	13	13,416	12	16,549	13	14,551	12	13,283	12
Asia												
China	15,887	12	13,542	11	12,086	11	16,212	12	13,687	11	12,201	11
Malaysia	1,740	1	1,544	1	1,326	1	2,086	2	1,858	2	1,631	1
Japan	1,065	1	852	1	757	1	725	1	699	1	653	1
Taiwan	370	1	364	1	352	1	382	0	373	1	362	1
Singapore	283	0	240	0	216	0	234	0	202	0	185	0
India	234	0	222	0	182	0	235	0	219	0	180	0
Rest of Asia	1,508	1	1,406	1	1,292	1	737	1	670	1	533	1
TOTAL ASIA	21,087	16	18,170	15	16,211	15	20,611	16	17,708	16	15,745	15
Rest of the world												
South Africa	344	1	326	1	264	0	457	0	435	0	356	0
Tunisia	263	0	262	0	252	0	497	0	447	0	497	1
Libya	195	0	142	0	187	0	–	–	–	–	–	–
Morocco	166	0	139	0	107	0	78	0	68	0	51	0
Other Rest of the world	1,334	1	1,282	1	1,075	2	640	1	590	1	492	0
TOTAL REST OF THE WORLD	2,302	2	2,151	2	1,885	2	1,672	1	1,540	1	1,396	1
Total Group	128,975	100	118,500	100	109,265	100	128,975	100	118,500	100	109,265	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.

B2b. SEGMENT REPORTING, CONT.

TB2-2 Group by country	Average number of employees									Non-current assets ¹⁾		
	2019	Of whom men, %	Of whom women, %	2018	Of whom men, %	Of whom women, %	2017	Of whom men, %	Of whom women, %	2019 SEKm	2018 ²⁾ SEKm	2017 ³⁾ SEKm
Sweden	1,984	55	45	2,062	55	45	2,075	56	44	3,520	2,331	2,648
EU excl. Sweden												
Germany	4,559	73	27	4,513	74	26	4,194	75	25	26,050	25,552	18,537
France	2,482	68	32	2,619	68	32	2,619	69	31	7,807	8,517	9,580
UK	1,614	76	24	1,614	76	24	1,589	77	23	5,742	5,166	5,209
Netherlands	1,240	82	18	1,256	82	18	1,269	82	18	3,211	2,695	2,915
Spain	1,171	75	25	1,242	75	25	1,213	75	25	3,669	3,646	3,826
Slovakia	896	63	37	937	63	37	953	63	37	736	1,053	1,116
Italy	883	75	25	860	75	25	869	76	24	3,439	3,001	3,263
Poland	840	73	27	826	72	28	742	71	29	1,922	1,864	1,468
Austria	604	81	19	610	81	19	624	82	18	864	707	819
Belgium	472	81	19	474	79	21	419	78	22	700	629	731
Finland	296	74	26	300	74	26	311	73	27	1,211	773	803
Hungary	129	39	61	134	42	58	138	43	57	13	5	6
Denmark	107	43	57	96	40	60	95	38	62	42	3	3
Czech Republic	58	47	53	62	46	54	65	42	58	8	1	1
Greece	46	54	46	49	54	46	51	55	45	17	11	11
Romania	33	36	64	33	36	64	32	38	62	19	14	13
Lithuania	24	50	50	25	48	52	25	48	52	4	-	-
Portugal	20	60	40	22	57	43	22	55	45	79	75	72
Ireland	14	64	36	14	64	36	14	64	36	32	29	28
Croatia	14	29	71	12	35	65	11	36	64	2	-	-
Rest of EU excl. Sweden	16	25	75	17	22	78	24	17	83	3	-	-
Total EU excl. Sweden	15,518	73	27	15,715	73	27	15,279	73	27	55,570	53,741	48,401
Rest of Europe												
Russia	1,295	61	39	1,346	61	39	1,391	60	40	1,592	1,468	1,709
Turkey	134	80	20	231	81	19	235	81	19	60	187	333
Norway	84	50	50	111	41	59	107	38	62	15	2	2
Ukraine	71	42	58	68	44	56	69	48	52	5	5	5
Switzerland	34	29	71	34	35	65	38	34	66	140	65	201
Rest of Europe, excl. EU	4	100	-	4	100	-	-	-	-	-	-	-
Total Rest of Europe	1,622	61	39	1,794	62	38	1,840	61	39	1,812	1,727	2,250
TOTAL EUROPE	19,124	70	30	19,571	70	30	19,194	70	30	60,902	57,799	53,299
North America												
USA	3,214	71	29	3,473	71	29	3,588	73	27	19,283	18,478	17,400
Canada	306	65	35	345	61	39	325	62	38	598	563	591
Rest of North America	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL NORTH AMERICA	3,520	71	29	3,818	70	30	3,913	72	28	19,881	19,041	17,991
Latin America												
Colombia	3,889	66	34	3,703	68	32	3,718	72	28	2,345	2,037	2,516
Mexico	3,027	70	30	3,060	70	30	2,871	69	31	5,207	4,510	3,968
Ecuador	1,163	66	34	1,171	65	35	1,068	66	34	626	613	279
Brazil	606	60	40	781	60	40	784	59	41	644	718	1,383
Chile	422	71	29	468	74	26	622	77	23	650	679	973
Argentina	323	65	35	335	63	37	359	60	40	40	60	53
Dominican Republic	268	66	34	261	65	35	141	68	32	236	246	158
Peru	130	37	63	131	26	74	15	53	47	439	400	-
Costa Rica	89	55	45	91	56	44	87	51	49	15	2	2
Nicaragua	3	67	33	4	38	62	6	17	83	-	-	-
Rest of Latin America	45	49	51	46	49	51	23	39	61	3	2	-
TOTAL LATIN AMERICA	9,965	66	34	10,051	67	33	9,694	68	32	10,205	9,267	9,332
Asia												
China	9,287	57	43	9,533	57	43	9,542	56	44	16,906	16,435	15,327
Malaysia	1,332	43	57	1,307	43	57	1,351	45	55	1,345	912	814
India	389	88	12	449	86	14	429	87	13	91	75	616
Taiwan	259	62	38	268	61	39	265	57	43	663	649	602
Japan	134	46	54	148	42	58	142	39	61	80	36	421
Singapore	33	28	72	30	32	68	32	34	66	16	11	11
Rest of Asia	359	53	47	386	56	44	294	58	42	709	685	973
TOTAL ASIA	11,793	56	44	12,121	56	44	12,055	55	45	19,810	18,803	18,764
Rest of the world												
Tunisia	887	92	8	922	89	11	920	88	12	119	116	139
South Africa	449	41	59	437	43	57	330	41	59	791	725	805
Morocco	68	51	49	62	55	45	56	52	48	-	-	1
Libya	-	-	-	-	-	-	-	-	-	-	-	-
Other Rest of the world	174	44	56	240	58	42	223	64	36	955	950	1,272
TOTAL REST OF THE WORLD	1,578	71	29	1,661	71	29	1,529	73	27	1,865	1,791	2,217
Total Group	45,980	66	34	47,222	66	34	46,385	66	34	112,663	106,701	101,603

¹⁾ Information about non-current assets by country refers to intangible assets and property, plant and equipment according to Notes D1 and D2. As of 2019, also right-of-use assets are included, refer to Note G2 on page 105.

²⁾ Adjustment of SEK 3,206m from Hungary to Germany for 2018.

³⁾ Adjustment of SEK 13m from Croatia to Romania for 2017. SEK 805m was adjusted from Tunisia to South Africa and SEK 139m from Libya to Tunisia for 2017.

B3. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function				
SEKm	2019	2018	2017	
IS Cost of goods sold	-90,876	-85,058	-76,899	
IS Sales, general and administration	-22,319	-20,570	-19,130	
IS Share of profits of associated companies and joint ventures	60	63	169	
IS Amortization of acquisition-related intangible assets	-778	-732	-560	
IS TB3:1 Items affecting comparability	-713	-1,444	-940	
Total	-114,626	-107,741	-97,360	

Refer also to the Description of costs section on page 130.

Operating expenses by type of cost				
SEKm	Note	2019	2018	2017
TB3:2 Other income		1,028	897	1,045
Change in inventory of finished products and products in progress ¹⁾		-962	196	172
Raw materials and consumables ¹⁾		-43,800	-43,771	-38,191
Personnel costs ¹⁾	C1	-23,888	-22,021	-20,142
TB3:3 Other operating expenses ¹⁾		-39,399	-36,412	-34,444
Amortization of intangible assets ¹⁾	D1	-1,111	-1,049	-853
Depreciation of property, plant and equipment ¹⁾	D2, G2	-6,366	-5,126	-4,871
Impairment of intangible assets ¹⁾	D1	-19	-105	-132
Impairment of property, plant and equipment ¹⁾	D2	-152	-428	-254
Reversal of impairment of property, plant and equipment ¹⁾	D2	119	-	-
Share in profits of associated companies and joint ventures ¹⁾		84	-215	169
Revaluation of previously owned shares in associated companies ¹⁾	F6	-	225	72
Gain/loss on divestment and liquidation ^{1) 2)}		-160	68	69
Total		-114,626	-107,741	-97,360

¹⁾ Including items affecting comparability.

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

TB3:1 Items affecting comparability

Distribution of items affecting comparability by type of cost

SEKm	2019	2018	2017
Impairment of inventory of finished products and products in progress, net	-70	-61	-4
Impairment of trade receivables	-10	-	-
Personnel costs	-445	-700	-69
Other operating expenses	-79	-183	-620
Amortization of intangible assets	-	-	-2
Impairment of intangible assets, net	-16	-105	-132
Impairment of property, plant and equipment, net	43	-410	-254
Share in profits of associated companies from impairment and divestments	24	-278	-
Revaluation of previously owned shares in associated companies	-	225	72
Gain/loss on divestment and liquidation	-160	68	69
Total	-713	-1,444	-940

Distribution of items affecting comparability

SEKm	2019
Restructuring costs relating to the Group-wide cost-savings program	-409
Costs for other restructuring programs	-181
Transfer to profit or loss of realized translation differences relating to divested and liquidated companies	-178
Other	55
Total	-713

Distribution of items affecting comparability, previous periods

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

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 USA	-255
Restructuring costs for the closure of the tissue machine in the UK	-75
Dissolution of provisions for competition case in Poland	265
Other	110
Total	-940

TB3:2 Other income

SEKm	2019	2018	2017
Sales not included in core operations	1,028	897	1,045
Total	1,028	897	1,045

Other income includes rental income, which is recognized in the period covered by the rental contract, royalties and similar items, which are recognized in accordance with the implied financial effect of the contract.

TB3:3 Distribution of other operating expenses

SEKm	2019	2018	2017
Transport expenses	-9,360	-8,290	-7,425
Energy costs ¹⁾	-5,125	-4,775	-4,498
Purchased finished goods for resale	-6,811	-5,144	-5,053
Marketing costs	-6,604	-6,031	-5,777
Repairs and maintenance	-2,927	-2,546	-2,436
IT, telephony and lease of premises ²⁾	-903	-1,633	-1,380
Other operating expenses, production	-4,092	-3,919	-3,671
Other operating expenses, distribution, sales and administration	-3,481	-3,674	-3,644
Other	-96	-400	-560
Total	-39,399	-36,412	-34,444

¹⁾ After deduction for revenues from energy in the amount of SEK 184m (327; 227).

²⁾ As of 2019, leases are recognized in accordance with the new accounting standard IFRS 16 Leases, see Note G5 on page 107. This means that lease payments from 2019 are recognized as depreciation and interest expenses rather than lease of premises in IT, telephony and lease of premises, which is why the item has decreased.

Other disclosures

Exchange rate effects had a negative impact of SEK -70m (-186; -10) on operating profit. Government grants received reduced operating expenses by SEK 47m (55; 65). Costs for research and development amounted to SEK -1,485m (-1,320; -1,239) during the period.

B4. AUDITING EXPENSES

Auditing expenses

SEKm	2019	2018	2017
EY			
Audit assignments	-70	-64	-58
Auditing activities other than the audit assignment	-2	-2	-4
Tax consultancy services	-2	-1	-1
Other assignments	-3	-3	-2
Total EY	-77	-70	-65
Other auditors			
Audit assignments	-18	-17	-19
Tax consultancy services	-10	-5	-2
Other assignments	-8	-9	-3
Total other auditors	-36	-31	-24
Total	-113	-101	-89

B5. INCOME TAXES

AP ACCOUNTING PRINCIPLES

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

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

Deferred tax is calculated based on temporary differences between the carrying amounts and the 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 from shares in subsidiaries, joint ventures or associated companies, since Essity can control the reversal of the temporary differences and it is probable that such a reversal will not take place in the foreseeable future.

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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 and other

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

Key assessments and assumptions are also made regarding recognition of tax risks. During the period, tax risks were reclassified as tax liabilities from provisions in line with the interpretation of IFRIC 23 Uncertainty over Income Tax Treatments, which has taken effect.

Tax expense

Tax expense (+), tax income (-)						
SEKm	2019	%	2018	%	2017	%
Current tax						
Income tax for the period	2,764	21.2	2,207	23.0	2,927	27.3
Adjustments for prior periods ¹⁾	1,020	7.8	-1,324	-13.8	-112	-1.0
TB5:1 Current tax expense	3,784	29.0	883	9.2	2,815	26.3
Deferred tax						
Changes in temporary differences	275	2.1	226	1.9	-759	-7.1
Adjustments for prior periods ¹⁾	-1,252	-9.6	37	-0.8	77	0.7
Revaluations	21	0.2	-96	0.6	-195	-1.8
TB5:1 TB5:2 TB5:3 Deferred tax expense	-956	-7.3	167	1.7	-877	-8.2
IS Tax expense	2,828	21.7	1,050	10.9	1,938	18.1

¹⁾ During the year, the reallocation of tax liabilities took place between current tax and deferred tax, which led to an increase in current tax liabilities of SEK 936m and a corresponding impact on deferred tax income.

Explanation of tax expense

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

Tax expense						
SEKm	2019	%	2018	%	2017	%
IS Profit before tax	13,040		9,602		10,723	
IS Tax expense	2,828	21.7	1,050	10.9	1,938	18.1
Expected tax expense	3,036	23.3	2,144	22.3	2,381	22.2
Difference	-208	-1.6	-1,094	-11.4	-443	-4.1
The difference is explained by:						
Permanent differences between accounting and taxable result						
Effects of subsidiary financing ¹⁾	-165	-1.3	-35	-0.4	-303	-2.8
Effects of acquisitions and divestments ²⁾	53	0.4	-106	-0.9	2	0.0
Taxes relating to profit-taking	27	0.2	42	0.4	35	0.3
Other permanent effects ³⁾	102	0.8	272	2.3	147	1.4
Taxes related to prior periods ⁴⁾	-232	-1.8	-1,287	-14.5	-35	-0.3
Changes in the value of deferred tax assets ⁵⁾	37	0.3	60	2.1	311	2.9
Changes in tax rates ⁶⁾	-30	-0.2	-40	-0.4	-600	-5.6
Total	-208	-1.6	-1,094	-11.4	-443	-4.1

¹⁾ The effects are principally attributable to financing of the operations in the USA, Germany, France and Mexico. Year 2018 pertains to the financing effects concern the USA, 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 USA.

²⁾ Effects of acquisitions and divestments relate essentially to divested operations in Turkey and Brazil. In 2018, the effects of acquisitions and divestments relate essentially to acquisitions and the revaluation of existing holdings in operations in Peru and Bolivia.

³⁾ Other permanent effects primarily comprise BEAT effects in the USA of SEK 125m. For 2018 the effects relate to a non-deductible share in profit in Asaleo Care of SEK 97m primarily attributable to an impairment of assets, and dissolution effects of tax on non-current assets of SEK -57m. 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.

⁴⁾ Taxes attributable to prior periods relate mainly to the effect of a remeasurement of the tax amount on non-current assets in Mexico of SEK -253m. Year 2018 relates mainly to the effect of a tax dispute in Sweden totaling SEK -1,110m and a tax dispute in Denmark totaling SEK -417m in which the final rulings were in Essity's favor.

⁵⁾ The change in value of deferred tax assets relates mainly to uncapped tax loss carryforwards in Brazil of SEK 109m and an increase in a tax credit in Poland of SEK -68m. For 2018 the effects relate mainly to uncapped 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 USA of SEK 139m and in Brazil of SEK 156m.

⁶⁾ Changes in tax rates for 2017 are primarily attributable to the revaluation of deferred taxes in the USA.

B5. INCOME TAXES, CONT.

Current tax liability

Current tax liability (+), current tax asset (-)				
SEKm	2019	2018	2017	
Value, January 1	-1,556	-216	175	
TB5:1 Current tax expense	3,784	883	2,815	
OCF CF TB5:1 Paid tax	-1,130	-2,466	-2,971	
Other changes from acquisitions, divestments and reclassifications	670	240	-50	
Transactions with shareholders	-	-	-194	
Translation differences	-81	3	9	
Value, December 31	1,687	-1,556	-216	
BS of which current tax liability	2,432	570	553	
BS of which current tax asset	745	2,126	769	

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
Netherlands ¹⁾	1,259	-9	1,250	-199
Sweden ²⁾	124	276	400	1,060
China	283	-74	209	-119
Colombia	183	-7	176	-230
France	109	55	164	52
UK	45	67	112	29
Italy	97	6	103	-72
Spain	85	8	93	-79
Germany	277	-187	90	-452
Russia	90	-5	85	-102
Malaysia	74	-8	66	-64
Australia	75	-10	65	-91
Ecuador	64	0	64	-80
Chile	51	7	58	4
Japan	45	13	58	-45
Finland	62	-9	53	-63
Belgium	72	-30	42	-82
Denmark	38	0	38	-37
Norway	37	0	37	-38
Switzerland	32	0	32	-30
Canada	16	15	31	45
Argentina	30	-	30	-
Mexico	179	-288	-109	-211
USA ¹⁾	180	-704	-524	-15
Other countries ³⁾	277	-72	205	-311
OCF CF IS Total	3,784	-956	2,828	-1,130

¹⁾ The reallocation of tax liabilities took place between the US and the Netherlands, which led to an increase in current tax of SEK 936m in the Netherlands with the corresponding deferred tax income in the USA.

²⁾ Payment received primarily refers to tax disputes where the final rulings were announced in Essity's favor in 2018.

³⁾ 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 (+), deferred tax asset (-)					
SEKm	Value, January 1	Deferred tax expense	Other changes ²⁾	Translation differences	Value, December 31
Intangible assets	5,844	-189	104	115	5,874
Property, plant and equipment	3,426	121	-92	67	3,522
Non-current financial assets	-121	67	199	5	150
Current assets	-391	15	-46	-13	-435
Provisions	-736	409	-326	7	-646
Liabilities	-990	-566	-42	-20	-1,618
Tax credits and tax loss carry-forwards	-1,816	-467	-	-57	-2,340
Other	-102	-346	-31	-22	-501
Total¹⁾	5,114	-956	-234	82	4,006

¹⁾ The net closing deferred tax liability comprises **BS** deferred tax assets of SEK 2,539m (2,158; 2,232) and **BS** deferred tax liabilities of SEK 6,545m (7,272; 7,090).

²⁾ Other changes mainly include deferred tax recognized directly in other comprehensive income within equity according to IAS 19 Remuneration of employees of SEK 56m and IFRS 9 Financial instruments of SEK 173m.

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

YEAR	Value, January 1	Deferred tax expense	Other changes	Translation differences	Acquisitions and divestments	Value, December 31
BS 2018	4,858	167	-167	256	-	5,114
BS 2017	2,415	-877	-224	-94	3,638	4,858

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 -2,340m.

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 6,412m (6,470; 6,251), gross, at December 31, 2019.

The change in uncapped tax loss carryforwards for the period includes SEK 47m that has expired and SEK 32m that was either utilized or capitalized. The tax value of uncapped tax loss carryforwards amounted to SEK 1,791m (1,748; 1,852). 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	2019	2018	2017
Within 1 year	90	48	325
2 years	62	305	136
3 years	53	17	67
4 years	99	100	28
5 years or more	1,108	1,499	1,143
Indefinite life	5,000	4,501	4,552
Total	6,412	6,470	6,251

C. EMPLOYEES

C1. PERSONNEL COSTS

The table below presents the Group's total personnel costs.

Personnel costs				
SEKm	Note	2019	2018	2017
Salaries and remuneration		-16,825	-15 403	-14,562
TC2:1 of which Executive Management Team	C2	-141	-124	-126
of which Board	C3	-9	-9	-9
Pension costs		-1,411	-1 433	-1,193
of which defined benefit pension costs	C4	-468	-528	-425
of which other pension costs		-943	-905	-768
Other social security costs		-4,194	-3 594	-3,213
Other personnel costs		-1,458	-1 591	-1,174
Total¹⁾		-23,888	-22,021	-20,142

¹⁾ Costs for implemented efficiency-enhancement activities of SEK -445m (-700; -69) are included in total personnel costs.

C2. REMUNERATION OF SENIOR EXECUTIVES

AP ACCOUNTING PRINCIPLES

Incentive programs

Essity has variable remuneration programs: Short Term Incentive (STI) and Long Term Incentive (LTI). Variable remuneration is capped at a specific percentage of fixed salary and is recognized as an expense and current liability, respectively, during the earning period in accordance with IAS 19 Employee Benefits. The programs are continuously evaluated and reported in the annual accounts. Payment is made in cash the year following the vesting period.

Description of incentive programs

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

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

Variable remuneration under LTI is paid in cash to employees and accordingly does not have any dilutive effect. Participants in the LTI program are to acquire shares in Essity for half of the LTI outcome paid after tax and to refrain from divesting these shares for a period of three years.

Annual General Meeting guidelines for remuneration of senior executives¹⁾

The 2019 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, if 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 labor law or collective agreements. Neither do they apply to existing agreements.

Company's application of guidelines

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

Fixed salary

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

Variable remuneration

Variable remuneration of the CEO, Executive Vice President and Business Unit Presidents and equivalents is maximized to a total of 100% of the fixed salary. For two Business Unit Presidents, stationed in the Americas, the maximum outcome is 110–130%. The corresponding limit for other senior executives is 90%. 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. 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, 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% of the variable remuneration. The long-term portion ("Long Term Incentive", or LTI) may amount to a maximum of 50% of the fixed salary. The senior executive is to invest half of the variable LTI compensation, after tax withholdings, in Essity shares. The shares may then not be sold before the end of the third year after the purchase of shares in the relevant LTI program.

Outcome, variable remuneration

For the CEO, Executive Vice President and Central Staff Managers, STI resulted in 40–50% of fixed salary for 2019. STI resulted in variable remuneration corresponding to 29–72% of fixed salary for the Business Unit Presidents. The LTI target was achieved for 2017–2019, 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.

¹⁾ Senior executives include the President, Executive Vice President, Business Unit President and equivalent, as well as Group Function Senior Vice President.

C2. REMUNERATION OF SENIOR EXECUTIVES, CONT.

TC2:1 Remuneration and other benefits during the year 2019

SEK	Fixed salary	Variable remuneration ¹⁾	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	13,800,000	13,800,000 ²⁾	110,732	27,710,732
Other senior executives (11 people)	55,608,750	54,523,552 ³⁾	3,156,703	113,289,005
Total	69,408,750	68,323,552	3,267,435	140,999,737

¹⁾ Variable remuneration covers the 2019 fiscal year but is paid in 2020.

²⁾ Of which LTI program SEK 6,900,000.

³⁾ Of which LTI program SEK 27,804,376.

Pension costs 2019¹⁾

SEK	
President and CEO Magnus Groth ²⁾	5,751,678
Other senior executives (11 people) ³⁾	15,176,118
Total	20,927,796

¹⁾ The pension costs pertain to the costs that affected profit for 2019, excluding special payroll tax.

²⁾ Outstanding pension obligations amount to SEK 24,062,615.

³⁾ Outstanding pension obligations amount to SEK 84,529,681.

Pension

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

Notice period and severance pay

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

Preparation and decision process for remuneration

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

The Board's proposal for new guidelines

The Board proposes that the 2020 Annual General Meeting adopt new guidelines for remuneration of senior executives, that can be found on pages 29–30. With the salary situation prevailing in 2020 with 12 senior executives, the maximum outcome of variable remuneration would entail a cost for the Group, excluding social security costs, of approximately SEK 76m.

TC2:1 Remuneration and other benefits during the year 2018

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

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

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

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

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

Pension costs 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.

TC2:1 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.

Obligations in relation to former presidents and CEOs

For former presidents and CEOs, Essity has outstanding, non-funded obligations amounting to SEK 197m. These costs were recognized in previous years and comprise pension obligations that Essity assumed from Svenska Cellulosa Aktiebolaget in conjunction with the split of the Group.

C3. FEES TO BOARD MEMBERS IN THE PARENT COMPANY DURING THE YEAR

Remuneration to non-executive Board members of Essity Aktiebolag (publ) refers to the fees approved at the AGM on April 4, 2019 for the period until

the next AGM in April 2020. No remuneration is paid to the President and CEO and other employees.

SEK	Board fee			Audit Committee fee			Remuneration Committee fee			Total		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Pär Boman (Chairman)	2,310,000	2,220,000	2,100,000	275,000	264,000	250,000	150,000	143,000	135,000	2,735,000	2,627,000	2,485,000
Ewa Björling	770,000	740,000	700,000							770,000	740,000	700,000
Maija-Liisa Friman	770,000	740,000	700,000							770,000	740,000	700,000
Annemarie Gardshol	770,000	740,000	700,000							770,000	740,000	700,000
Louise Svanberg	770,000	740,000	700,000				115,000	111,000	105,000	885,000	851,000	805,000
Johan Malmquist			700,000									700,000
Bert Nordberg	770,000	740,000	700,000	275,000	264,000	250,000	115,000	111,000	105,000	1,160,000	1,115,000	1,055,000
Barbara Milian Thoralfsson	770,000	740,000	700,000	380,000	349,000	330,000				1,150,000	1,089,000	1,030,000
Lars Reben Sørensen	770,000	740,000	700,000							770,000	740,000	700,000
Total	7,700,000	7,400,000	7,700,000	930,000	877,000	830,000	380,000	365,000	345,000	9,010,000	8,642,000	8,875,000

C4. 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 below). Actuarial gains and losses (remeasurements) are recognized directly in equity under other comprehensive income in the period in which they arise. The recognized cost for the defined benefit plans includes personnel costs, as well as net interest items. Net interest items comprise the discount rate calculated on the average net pension liability for the period, taking fee and remuneration payments into consideration. The difference between the calculated interest income (discount rate) on the plan assets and Essity's actual return on the plan assets is included in the remeasurement of the defined benefit net liability or net asset recognized in equity under other comprehensive income. Past service costs are recognized in profit or loss in the period in which they arise.

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, meaning plans

with assets exceeding obligations, are recognized as a financial non-current asset provided they are not limited by the "asset ceiling" under IAS 19. Other pension plans, which are not fully funded or unfunded, are recognized as Provisions for pensions.

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

Severance pay

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

The calculation of recognized expenses and provisions for defined benefit pension plans, where the size of the future compensation is unknown and payment will occur far in the future, is dependent on assumptions and assessments. Key assumptions and assessments include the discount rate, future salary increases, inflation and life expectancy. Essity determines the discount rate based primarily on AA-rated corporate bonds issued in the currency in which the payments will be made that match the duration of the obligations. If no such corporate bonds are available, government bonds or

mortgage bonds are used. Inflation assumptions are based on a combination of central bank targets, implicit market expectations and long-term analyst forecasts. Assumptions regarding salary increases are based on market expectations and market research forecasts. Key actuarial assumptions are presented in [TC4:5](#). The sensitivity of the recognized provision with respect to key actuarial assumptions is described in [TC4:6](#).

C4. REMUNERATION AFTER EMPLOYMENT, CONT.

Provisions for pensions and similar obligations

SEKm	2019	2018	2017
TC4:2 Defined benefit obligations	38,510	33,082	33,007
TC4:3 Fair value of plan assets	-36,372	-29,648	-30,418
TC4:4 Effect of asset ceiling	887	707	804
TC4:1 Provision for pensions, net	3,025	4,141	3,393

Surpluses in funded plans recognized as financial non-current assets amounted to **BS** SEK 2,841m (1,117; 1,148) on the balance sheet date and provisions for pensions totaled **BS** SEK 5,866m (5,258; 4,541). Defined benefit obligations include obligations in an amount of SEK 2,889m (2,380; 2,313) pertaining to unfunded plans.

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

TC4:1 Provisions for pensions and similar obligations per country

SEKm Country	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
Netherlands	2,634	1,541	1,524	5,699	-5,112		587	23
UK	13	8,884	9,154	18,051	-19,925		-1,874	19
Sweden	1,986	1,156	1,354	4,496	-3,249	887	2,134	20
Germany	2,447	660	1,468	4,575	-4,602		-27	17
USA	544	1,205	2,116	3,865	-3,101		764	12
Other	1,663	-	161	1,824	-383		1,441	13
Total	9,287	13,446	15,777	38,510	-36,372	887	3,025	

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.

UK

The plan is a defined benefit plan with contributions paid by the company. The plan is based on final salary and consists of retirement pension, beneficiaries' pension and disability pension. The plan was closed to new participants in 2007 and closed for future accrual in September 2018. The plan is managed by an independent company and assets are held separately, according to UK law. Surpluses in the pension fund remain in the fund's assets but can be utilized in the form of premium discounts. The plan is obligated to meet the minimum funding level according to an agreement with the pension plan.

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.

USA

In the USA, the defined benefit obligations comprise retirement pensions in which the premiums are paid by the company and the benefit is based on a standard amount per service year. Only one plan is still open for new accrual for about 200 employees. The benefits are financed via a pension fund that is obligated to meet the minimum legislated funding level. Surpluses in the pension fund can be utilized in the form of premium discounts.

Costs for the period for defined benefit plans

SEKm	2019	2018	2017
Current service cost, after deduction for premiums paid by the employees	-528	-589	-564
Past service cost	16	36	104
Pension-tax expense	-36	-33	-32
Remeasurement, net	-26	9	-7
Net interest income/expense	-93	-83	-136
Pension costs before effects of settlements	-667	-660	-635
Settlements	70	16	42
Pension costs after effects of settlements	-597	-644	-593

C4. REMUNERATION AFTER EMPLOYMENT, CONT.

TC4:2 Defined benefit obligations

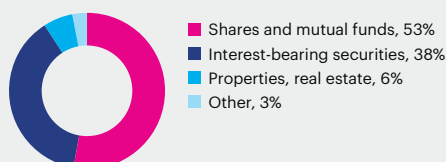
SEKm	2019	2018	2017
Value, January 1	33,082	33,007	30,638
Current service cost	540	601	575
Interest expense	895	811	858
Past service cost	-16	-36	-104
Pension-tax expense	36	33	32
Settlements and transfers	-293	-251	212
Acquisitions and divestments	-1	2	972
Benefits paid	-1,398	-1,445	-1,114
Pension taxes paid	-10	-12	-5
Remeasurement: financial assumptions	4,668	-1,102	1,332
Remeasurement: demographic assumptions	37	-26	-198
Remeasurement: experience-based assumptions	-538	304	-57
Pension taxes pertaining to remeasurement	68	69	55
Translation differences	1,440	1,127	-189
Value, December 31	38,510	33,082	33,007

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.

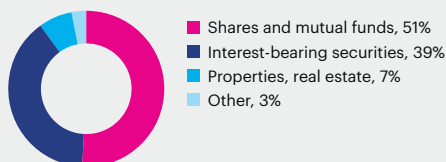
TC4:3 Plan assets

SEKm	2019	2018	2017
Fair value, January 1	-29,648	-30,418	-26,363
Interest income	-818	-747	-740
Acquisitions and divestments	-	-	-661
Contributions by plan participants	-12	-12	-11
Contributions by the employer	-1,292	-1,019	-1,367
Benefits paid, excluding settlements	1,396	1,368	1,110
Benefits paid for settlements	253	226	-226
Return in excess of recognized interest income	-4,881	1,909	-2,316
Administrative expenses for pension obligations	44	42	32
Translation differences	-1,414	-997	124
Fair value, December 31	-36,372	-29,648	-30,418

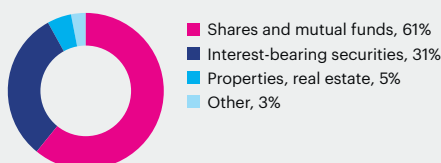
The plan assets are distributed according to the following classes of assets, 2019:



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



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



93% (92; 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, 2019.

TC4:4 Effect of asset ceiling

SEKm	2019	2018	2017
Value, January 1	707	804	663
Interest expense	16	19	18
Other changes to asset ceiling	164	-116	123
Value, December 31	887	707	804

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.

TC4:5 Principal actuarial assumptions

	Sweden	UK	Germany	Nether-lands	US
2019					
Discount rate	1.40	2.07	0.96	1.07	3.16
Expected salary increase rate	3.00	N/A	2.75	2.75	N/A
Expected inflation	2.00	3.00	1.50	1.50	N/A
Life expectancy, men ¹⁾	22	22	20	21	20
Life expectancy, women ¹⁾	25	24	24	24	22
2018					
Discount rate	2.26	2.72	1.87	1.94	4.30
Expected salary increase rate	3.25	N/A	3.00	3.00	N/A
Expected inflation	2.00	3.00	1.75	1.75	N/A
Life expectancy, men 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

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

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

TC4:6 Change of obligation, increased obligation (-)

SEKm	
Discount rate +0.25%	1,645
Price inflation, incl. salary inflation +0.25%	-1,123
Life expectancy +1 year	-1,618

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 2020 are calculated at SEK 1,016m. Contributions for multiemployer plans for 2020 are calculated at SEK 42m.

D. OPERATING ASSETS AND LIABILITIES

D1. INTANGIBLE ASSETS

AP ACCOUNTING PRINCIPLES

Goodwill

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

Trademarks

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

Licenses, patents and similar rights

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

Customer relations

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

Research and development

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

Impairment testing

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

Emission allowances and costs for carbon dioxide emissions

Essity participates in the European system for emission allowances.

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

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

D1. INTANGIBLE ASSETS, CONT.

Goodwill			
SEKm	2019	2018	2017
Accumulated costs	34,846	33,887	31,956
Accumulated impairment	-265	-334	-259
Total	34,581	33,553	31,697
Value, January 1	33,553	31,697	19,253
Company acquisitions	-	311	13,290
Company divestments	-15	-	-
Reclassifications	-	-7	-
Impairment	-	-49	-84
Translation differences	1,043	1,601	-762
BS Value, December 31	34,581	33,553	31,697

Intangible assets excluding goodwill

SEKm	Trademarks			Technologies, Customer relations and similar rights			Capitalized development costs			Total Other intangible assets		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Accumulated costs	14,686	14,438	13,840	12,305	11,863	11,404	513	447	352	27,504	26,748	25,596
Accumulated amortization	-559	-446	-358	-5,301	-4,312	-3,412	-132	-87	-43	-5,992	-4,845	-3,813
Accumulated impairment	-468	-446	-365	-94	-73	-65	-	-	-	-562	-519	-430
Total	13,659	13,546	13,117	6,910	7,478	7,927	381	360	309	20,950	21,384	21,353
Value, January 1	13,546	13,117	6,012	7,478	7,927	1,577	360	309	-	21,384	21,353	7,589
Investments	-	-	-	138	153	749	58	77	71	196	230	820
Sales and disposals	-44	-	-	-	-4	-21	-	-	-	-44	-4	-21
Company acquisitions	-	9	7,095	-	68	6,112	-	-	265	-	77	13,472
Reclassifications	1	-	28	88	-59	285	-1	-	-	88	-59	313
Amortization ¹⁾	-109	-78	-68	-958	-929	-754	-44	-42	-31	-1,111	-1,049	-853
Impairment	-	-56	-	-19	-	-48	-	-	-	-19	-56	-48
Translation differences	265	554	50	183	322	27	8	16	4	456	892	81
Value, December 31	13,659	13,546	13,117	6,910	7,478	7,927	381	360	309	20,950	21,384	21,353
TD1:1 Emission allowances, net value										232	91	71
BS Value, December 31 including emission allowances										21,182	21,475	21,424

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

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. The testing showed that no impairment was needed for 2019, 2018 or 2017. 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 -19m.

Distribution by operating segment

SEKm	Goodwill			Trademarks			WACC, before tax %		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Personal Care	17,545	17,029	16,039	8,544	8,524	8,230	8.6	9.8	9.5
Consumer Tissue	9,894	9,625	9,276	5,108	5,016	4,878	8.1	9.4	9.2
Professional Hygiene	7,142	6,899	6,382	7	6	9	7.3	8.1	8.2
Total	34,581	33,553	31,697	13,659	13,546	13,117			

TD1:1 Emission allowances

SEKm	2019	2018	2017
Accumulated costs	232	91	71
Accumulated revaluation of surplus	0	0	0
Total	232	91	71
Value, January 1	91	71	76
Emission allowances received	174	59	47
Purchases	51	25	17
Settlement with the government	-84	-68	-71
Revaluation of surplus	0	0	0
Translation differences	0	4	2
Value, December 31	232	91	71

D2. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any impairment. In cases where an investment in foreign currency has been recognized using hedge accounting, the gain/loss from the hedge is recognized as part of the acquisition cost. 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

Property, plant and equipment

SEKm	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Accumulated costs	24,855	23,255	21,158	4,403	4,276	4,014	85,802	80,511	73,111	3,716	4,970	4,678
Accumulated depreciation	-10,986	-10,010	-8,800	-649	-599	-542	-52,516	-48,983	-43,710	-1	-	-1
Accumulated impairment	-258	-271	-295	-25	-51	-26	-1,261	-1,392	-1,073	-1	-33	-32
Total	13,611	12,974	12,063	3,729	3,626	3,446	32,025	30,136	28,328	3,714	4,937	4,645
Value, January 1	12,974	12,063	11,825	3,626	3,446	3,325	30,136	28,328	28,502	4,937	4,645	3,842
Investments	208	102	607	34	22	22	1,808	1,601	1,394	3,629	4,950	4,170
Sales and disposals	-37	-20	-17	-1	-46	-5	-89	-90	-78	-1	-18	-1
Company acquisitions	-	79	299	-	71	64	-	145	767	-	86	221
Company divestments	-	-	-14	-	-	-1	-81	-	-16	-3	-	-
Reclassifications	818	1,134	389	-4	87	113	4,045	3,714	2,779	-5,037	-4,895	-3,507
Depreciation ¹⁾	-841	-793	-730	-44	-42	-47	-4,597	-4,291	-4,094	-	-	-
Impairment	-6	-23	-65	-2	-30	-11	-144	-372	-178	-	-3	-
Reversal of impairment	70	-	-	22	-	-	27	-	-	-	-	-
Translation differences	425	432	-231	98	118	-14	920	1,101	-748	189	172	-80
Value, December 31	13,611	12,974	12,063	3,729	3,626	3,446	32,025	30,136	28,328	3,714	4,937	4,645

¹⁾ Included primarily in Cost of goods sold.

Total property, plant and equipment

SEKm	2019	2018	2017
Accumulated costs	118,776	113,012	102,961
Accumulated depreciation	-64,152	-59,592	-53,053
Accumulated impairment	-1,545	-1,747	-1,426
Total	53,079	51,673	48,482
Value, January 1	51,673	48,482	47,494
Investments	5,679	6,675	6,193
Sales and disposals	-128	-174	-101
Company acquisitions	-	381	1,351
Company divestments	-84	-	-31
Reclassifications	-178	40	-226
Depreciation ¹⁾	-5,482	-5,126	-4,871
Impairment	-152	-428	-254
Reversal of impairment	119	-	-
Translation differences	1,632	1,823	-1,073
Value, December 31	53,079	51,673	48,482
TG2:1 Right-of-use assets, net value	3,821	-	-
BS Value, December 31 including right-of-use assets	56,900	51,673	48,482

¹⁾ Included primarily in Cost of goods sold.

Impairment losses for the year totaling SEK 152m are mainly related to restructuring measures in Consumer Tissue and Personal Care. Reversal of impairments totaling SEK 119m is mainly related to previous impairments at production facilities in Baby Care, India, and Consumer Tissue, France.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 39m (24; 35) and in construction in progress in an amount of SEK 1m (0; -). The average interest rate used was 4% (5; 5).

Contract obligations relating to the acquisition of property, plant and equipment amounted to SEK 3,836m (3,563) at year end.

D3. INVENTORIES

AP ACCOUNTING PRINCIPLES

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

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

Inventories

SEKm	2019	2018	2017
Raw materials and consumables	4,749	3,937	4,162
Spare parts and supplies	1,862	1,656	1,513
Products in progress	1,424	1,546	1,420
Finished products	7,717	8,090	6,641
Advance payments to suppliers	12	5	3
BS Total	15,764	15,234	13,739

Impairment of inventories amounted to SEK 78m (85; 47), of which SEK 70m (61; 4) 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	2019	2018	2017
VAT receivables	702	999	891
Prepaid expenses and accrued income	568	542	496
Suppliers with debit balance	56	43	256
Receivables for electricity and gas	137	134	116
Receivables from authorities	90	75	85
Derivatives	20	324	208
Other receivables	540	482	497
BS Total	2,113	2,599	2,549

D5. OTHER LIABILITIES

Other liabilities			
SEKm	2019	2018	2017
Other non-current liabilities			
Derivatives	42	8	5
Other non-current liabilities	141	63	74
BS Total	183	71	79
Of which items that fall due for payment later than within five years			
	20	17	17
Other current liabilities			
Derivatives	282	35	42
TD5:1 Accrued expenses and prepaid income	11,720	10,190	9,575
VAT liabilities	1,042	873	965
Other operating liabilities	1,954	1,694	1,987
BS Total	14,998	12,792	12,569

TD5:1 Accrued expenses and prepaid income¹⁾

SEKm	2019	2018	2017
Bonus and discounts to customers	6,038	5,269	4,829
Accrued vacation pay liability	699	689	621
Accrued social security costs	440	394	371
Other liabilities to personnel	1,538	967	1,150
Other items	3,005	2,871	2,604
Total	11,720	10,190	9,575

¹⁾ Includes a reclassification of discounts from Other items to Bonus and discounts to customers in an amount of SEK 496m in 2018 and SEK 428m in 2017.

D6. OTHER PROVISIONS

AP ACCOUNTING PRINCIPLES

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

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

From January 1, 2019, tax risks are recognized as tax liabilities in line with the interpretation of IFRIC 23 Uncertainty over Income Tax Treatments which has taken effect. Essity has chosen the permitted modified retrospective approach, meaning that comparative years are not restated.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

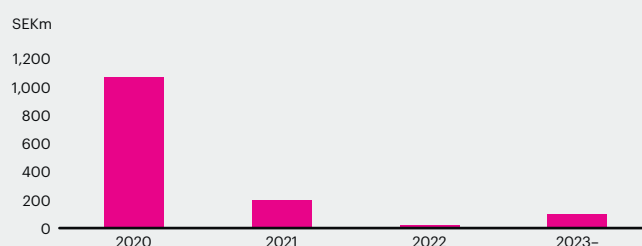
Other provisions 2019

SEKm	Efficiency programs	Tax risks	Environ-ment	Legal disputes	Other	Total
Value, January 1	1,023	731	91	1,008	313	3,166
Provisions	587	-	210	64	51	912
Divestments of Group companies and other operations	-	-1	-	-1	0	-2
Utilizations	-716	-	-84	-518	-85	-1,403
Reclassifications	-31	-732	-	-194	8	-949
Dissolutions	-99	-	-	-55	-3	-157
Translation differences	23	2	-5	12	7	39
Value, December 31	787	-	212	316	291	1,606
Provisions comprise:						
BS Short-term component						1,065
BS Long-term component						541

Other provisions, previous periods

SEKm	2018	2017
Value, January 1	3,028	2,816
Provisions	1,526	958
Acquisitions of Group companies and other operations	-	191
Utilizations	-669	-619
Reclassifications	56	77
Dissolutions	-853	-416
Translation differences	78	21
Value, December 31	3,166	3,028

Distribution of other provisions by maturity¹⁾



¹⁾ The timing of provisions totaling SEK 224m cannot be assessed.

Provisions for the period for Efficiency programs are mainly attributable to the Group-wide cost-savings program and to restructuring measures at the production facilities of Professional Hygiene and Consumer Tissue. Of the Provisions for the period for Environment, SEK 210m pertains to a liability for carbon dioxide emissions, which will be paid in 2020.

Utilizations for the period for Efficiency programs are attributable to restructuring measures at the production facilities of Professional Hygiene and Consumer Tissue and the Group-wide cost-savings program. Utilizations for the period for Legal disputes relate mainly to the payment of fines in Spain and the settlement of a legal dispute in France.

During the period, Tax risks were reclassified as tax liabilities in line with the interpretation of IFRIC 23 Uncertainty over Income Tax Treatments, which has taken effect. More information is available in the accounting principles section. Reclassifications for the period of Legal disputes relate mainly to the reclassification of provisions for the dispute in Chile to current liability as the Supreme Court rejected Essity's appeal.

The provisions recognized at the end of the period attributable to Efficiency programs relate mainly to restructuring measures at production facilities of Professional Hygiene and Consumer Tissue. Provisions for Environment pertain mainly to a liability for carbon dioxide emissions. Provisions for Legal disputes mainly consist of reserves for cases relating to the Andean Community (CAN). Other provisions mainly comprise reserves in connection with foreign tax of a non-recurring nature on non-current assets outside Sweden and grants received for 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 measured at amortized cost, except in cases where they are recognized at fair value using hedge accounting. Financial liabilities are derecognized from the balance sheet when Essity has met its commitments.

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

Fair value measurement

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

The fair value of non-current loans measured at prevailing market interest rates is presented in Note E4 Financial liabilities on page 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 in 2019 and 2018

Classification is carried out in accordance with IFRS 9 in 2019 and 2018. Under IFRS 9 Financial instruments, financial assets are to be classified on the basis of the company's business model and the purpose of contractual cash flows.

Amortized cost

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

Fair value through comprehensive income

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

For financial assets comprising an equity instrument, the company can, on initial recognition, make an irrevocable choice to recognize the asset at fair value through other comprehensive income without the option of recirculation to profit or loss. Essity has an asset valued at SEK 96m recognized in this category.

Fair value through profit or loss

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

Classification and subsequent recognition in 2017

In 2017, 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.

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.

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	Measure- ment level	2019	2018	2017
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	52	36	13
Derivatives – Current financial assets	E2	2	302	198	771
Derivatives – Other current receivables	D4	2	12	59	33
Total			366	293	817
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	13,167	16,083	16,292
Current financial liabilities	E4	2	–	905	–
Derivatives – Non-current financial liabilities	E4	2	95	58	21
Derivatives – Current financial liabilities	E4	2	486	327	396
Derivatives – Other current liabilities	D5	2	48	14	18
Total			13,796	17,387	16,727
Loan and trade receivables measured at amortized cost					
Non-current financial assets	E2	–	20	28	27
Current financial assets	E2	–	155	95	274
Trade receivables	E3	–	19,864	18,687	17,607
Cash and cash equivalents	E2	–	2,928	3,008	4,107
Total			22,967	21,818	22,015
Financial assets measured at fair value through other comprehensive income					
Non-current financial assets	E2	1	96	87	–
Available-for-sale financial assets					
Non-current financial assets	E2	1	–	–	87
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	26,796	27,359	31,312
Non-current lease liabilities	E4	–	3,021	–	–
Current financial liabilities	E4	–	7,560	9,580	6,689
Current lease liabilities	E4	–	851	–	–
Trade payables	–	–	15,802	15,911	14,748
Total			54,030	52,850	52,749
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	526	483	425
Other non-current assets	–	2	3	85	78
Other current receivables	D4	2	8	265	175
Current financial assets	E2	2	68	129	60
Total			605	962	738
Non-current financial liabilities	E4	2	–	–	12
Other non-current liabilities	D5	2	42	8	5
Current financial liabilities	E4	2	86	15	116
Other current liabilities	D5	2	234	21	24
Total			362	44	157

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

		2019		2018		2017	
		Financial instruments	Of which derivatives	Financial instruments	Of which derivatives	Financial instruments	Of which derivatives
SEKm	Note						
Assets							
Financial assets, cash and cash equivalents	E2	4,147	948	4,064	846	5,764	1,269
Other non-current assets		3	3	85	85	78	78
Trade receivables	E3	19,864	–	18,687	–	17,607	
Other current receivables	D4	20	20	324	324	208	208
Total		24,034	971	23,160	1,255	23,657	1,555
Liabilities							
Financial liabilities	E4	52,062	667	54,327	400	54,838	545
Other non-current liabilities	D5	42	42	8	8	5	5
Trade payables		15,802	–	15,911	–	14,748	–
Other current liabilities	D5	282	282	35	35	42	42
Total		68,188	991	70,281	443	69,633	592

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		
	2019	2018	2017
Non-current financial assets			
Financial assets measured at fair value through other comprehensive income	96	87	–
Available-for-sale financial assets	–	–	87
Financial assets measured at amortized cost			
Loan receivables, other	20	28	27
Derivatives	578	519	438
BS Total	694	634	552
Current financial assets			
Financial assets measured at amortized cost			
Financial assets	155	22	19
Loan receivables, other	–	73	255
Derivatives	370	327	831
BS Total	525	422	1,105
Cash and cash equivalents			
Cash and bank balances	2,315	2,611	3,365
Current investments < 3 months	613	397	742
BS CF Total	2,928	3,008	4,107
Total financial assets, cash and cash equivalents	4,147	4,064	5,764

Financial assets measured at fair value through other 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 the normal pension calculations, as set out in Note C4 Remuneration after employment on page 82. For 2017, 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, 2019 include SEK 1,946m (2,260; 1,974) 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. The cash and cash equivalents can also be used to repay local debts in these countries. Such liabilities in these countries amounts to SEK 1,254m (1,045; 821).

E3. TRADE RECEIVABLES

AP KAA ACCOUNTING PRINCIPLES AND KEY ASSESSMENTS AND ASSUMPTIONS

Trade receivables are measured at amortized cost after a provision is made for doubtful receivables. Provisions for doubtful receivables are made using the simplified impairment method in IFRS 9 Financial instruments for trade receivables meaning the provision is measured at 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 measurement of the provision for doubtful receivables is based on a combination of a collective and individual assessment. The collective assessment is based on the historical confirmed credit loss level in relation to net 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. These adjustments are made 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 events, such as financial crises or natural disasters.

An impairment of trade receivables due to a possible credit loss impacts Essity's operating profit as a selling cost in profit or loss and as a reduction of trade receivables by increasing the reserve for doubtful receivables in the balance sheet. When the credit loss has been confirmed, the trade receivable is written off against the provision to reserves for doubtful receivables. A credit loss is regarded as confirmed when it has been determined that the customer is unable to fulfill the legal obligation to pay Essity, when debt-collection measures are no longer cost efficient, the customer's operations have ceased or the customer has been declared bankrupt and this process has ended. Essity's trade receivables are generally current and are not discounted.

Trade receivables			
SEKm	2019	2018	2017
Trade receivables, gross	20,177	18,963	17,864
Provision for doubtful receivables	–313	–276	–257
BS TE3:1 Total	19,864	18,687	17,607

Credit risk in trade receivables

Essity's customer structure is dispersed, with customers in many different areas of business. In 2019, Essity's ten largest customers accounted for 23.7% (23.6; 22.9) of Essity's sales. The single largest customer accounted for 4.4% (4.4; 3.6) of sales. Confirmed credit losses on trade receivables in 2019 amounted to 0.01% (0.01) of net sales. Confirmed credit losses on trade receivables over the past five years amounted to an average of 0.02% (0.02) of net sales. Essity's overall assessment is that the credit risk in the countries where Essity conducts the majority of its sales has not changed materially during 2019. However, developments in GDP, financial stability and unemployment levels are monitored and evaluated on a continuous basis. Only one minor adjustment was therefore made in the collective assessment (see accounting principles above) regarding the expected impairment requirement for doubtful receivables in the 2019 year-end accounts.

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 1,251m (939; 1,329). Of this amount, SEK 13m (107; 203) relates to the category trade receivables overdue.

TE3:1 Analysis of credit risk exposure in trade receivables			
SEKm	2019	2018	2017
Trade receivables net after provision for doubtful receivables	19,864	18,687	17,607
Whereof: overdue			
< 30 days	1,615	1,486	1,389
30–90 days	775	593	425
> 90 days	404	417	264
Trade receivables, overdue	2,794	2,496	2,078

Provision to reserves for doubtful receivables			
SEKm	2019	2018	2017
Value, January 1	–276	–257	–273
Provision for expected credit losses	–67	–52	–61
Confirmed losses	14	15	12
Increase due to acquisitions	–	–	–53
Decrease due to reversal of provisions for expected credit losses	27	24	116
Translation differences	–11	–6	2
Value, December 31	–313	–276	–257

The expense for the period for doubtful receivables amounted to SEK –40m (–28; 55), of which SEK –10m is recognized as an item affecting comparability.

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

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

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

Financial liabilities			
SEKm	2019	2018	2017
Non-current financial liabilities			
Bond issues	31,690	34,247	35,687
Derivatives	95	58	33
Non-current lease liabilities	3,021	–	–
Other non-current loans with maturities > 1 year < 5 years	7,944	6,884	9,876
Other non-current loans with maturities > 5 years	329	2,311	2,041
BS Total	43,079	43,500	47,637
Current financial liabilities			
Amortization within one year	255	347	269
Bond issues	–	3,005	2,946
Derivatives	572	342	512
Current lease liabilities	851	–	–
Loans with maturities of less than one year	7,137	6,948	3,305
Accrued financial expenses	168	185	169
BS Total¹⁾	8,983	10,827	7,201
Total financial liabilities	52,062	54,327	54,838
Fair value of financial liabilities excluding leases	49,106	54,434	54,227

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 62,552m) for issuing bonds in the European capital market. As of December 31, 2019, a nominal EUR 3,134m (3,728; 4,188) was outstanding in public and bilateral issues with a remaining maturity of 3.8 years (4.2; 4.7).

Bond issues				
Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate, %
Notes EUR 500m	2021	5,242	5,251	0.50
Notes EUR 600m	2022	6,234	6,321	0.63
Notes EUR 500m	2023	5,532	5,600	2.50
Notes EUR 600m	2024	6,233	6,434	1.13
Notes EUR 300m	2025	3,271	3,219	1.13
Notes EUR 500m	2027	5,178	5,474	1.63
Total		31,690	32,299	
Non-current financial liabilities				
		Carrying amount, SEKm	Fair value, SEKm	
Other non-current loans with maturities > 1 year < 5 years		7,944	8,005	
Other non-current loans with maturities > 5 years		329	547	
Total		8,273	8,552	

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

Commercial paper program ¹⁾	
Program size	Issued SEKm
Commercial paper SEK 15,000m	1,520
Commercial paper EUR 1,200m	3,479
Total	4,999

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.

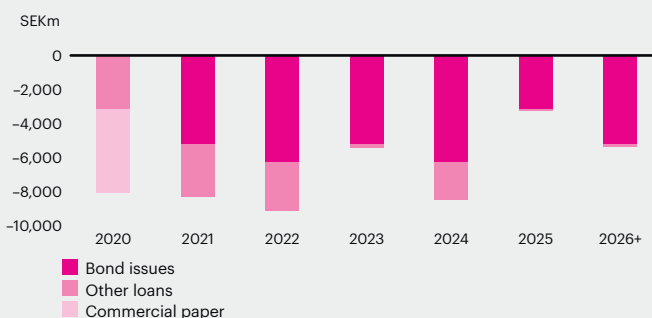
Credit facilities

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 1,000m	2021 ¹⁾	10,425	–	10,425
	EUR 1,000m	2024 ²⁾	10,425	–	10,425
Total			20,850	–	20,850

¹⁾ The syndicated credit facility expiring in 2021 was refinanced in January 2020. The new credit facility falls due in 2025 and has the same nominal amount.

²⁾ The syndicated credit facility expiring in 2024 was extended in January 2020 by EUR 941m until 2025. The remaining EUR 59m falls due in 2024.

Maturity profile of gross debt¹⁾



¹⁾ Gross debt includes accrued interest in the amount of SEK 286m.

After additions for net pension provisions and lease liabilities and with deductions for cash and cash equivalents, interest-bearing receivables and equity instruments, the net debt was SEK 50,940m (54,404; 52,467). For a description of the methods used by Essity to manage its refinancing risk, refer to the Risks and risk management section on page 39.

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 39.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
2019				
Loans including interest	8,003	18,438	14,325	8,850
Net settled derivatives	0	0	–	–
Energy derivatives	254	42	–	–
Lease liabilities	864	1,213	767	1,520
Trade payables	15,795	7	–	–
Total	24,916	19,700	15,092	10,370
Gross settled derivatives ¹⁾	60,735	1,057	591	–
2018				
Loans including interest	10,998	14,864	13,686	16,975
Net settled derivatives	0	0	0	–
Energy derivatives	22	8	–	–
Trade payables	15,786	125	–	–
Total	26,806	14,997	13,686	16,975
Gross settled derivatives ¹⁾	57,937	2,101	466	–
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	–

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

E6. DERIVATIVES AND HEDGE ACCOUNTING

AP ACCOUNTING PRINCIPLES

Accounting for derivatives used for hedging purposes

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

Cash flow hedges

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

Hedges of net investments in foreign operations

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

Fair value hedges

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

Economic hedges

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

Outstanding derivatives

SEKm	Of which			
	Total	Currency ¹⁾	Interest rate	Energy
2019				
Nominal	81,412	62,506	17,224	1,682
Asset	971	412	545	14
Liability	991	695	0	296
2018				
Nominal	80,623	60,744	17,935	1,944
Asset	1,255	370	489	396
Liability	443	412	1	30
2017				
Nominal	86,503	69,073	15,885	1,545
Asset	1,555	891	425	239
Liability	592	565	12	15

¹⁾ Nominal SEK 64,183m (69,588; 100,661) 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 34. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2019. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category and measurement level on page 89.

Offsetting of outstanding derivatives		
SEKm	Assets	Liabilities
December 31, 2019		
Gross amount	972	992
Offsettable amount	-1	-1
Net amount recognized in the balance sheet	971	991
ISDA agreements whose transactions are not offset in the balance sheet	-420	-420
Collateral paid	-	-26
Net after offsetting in accordance with ISDA agreements	551	545
December 31, 2018		
Gross amount	1,275	463
Offsettable amount	-20	-20
Net amount recognized in the balance sheet	1,255	443
ISDA agreements whose transactions are not offset in the balance sheet	-347	-347
Collateral received	-98	-
Net after offsetting in accordance with ISDA agreements	810	96
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

Income statement

Hedges pertaining to transaction exposure had an impact of SEK -16m (92; -106) on operating profit for the period. At year-end, the net market value amounted to SEK -17m (0; -9). Currency hedges increased the cost of non-current assets by SEK 14m (increased: 1; increased: 10). At year-end, the net market value amounted to SEK -3m (-1; 20). Energy derivatives had an impact of SEK -173m (396; 90) on operating profit for the period. Energy derivatives had an outstanding market value of SEK -282m (366; 225) at year-end. Derivatives impacted net interest items in an amount of SEK -381m (-362; -289). The net market value of outstanding interest rate derivatives amounted to SEK 545m (489; 413) at year-end. For further information relating to 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, 2019 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 8m (7; 54).

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; 0). If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 174m (299; 214). In addition to the earnings impact, equity would have increased/decreased by SEK 90m (136; 120). 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 34. 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 provides the option of hedging risk components. In 2019, 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 2019, SEK 0m (0; 0) was recognized in profit or loss as ineffectiveness concerning the cash flow hedges. Currency derivatives mature in April 2021, while energy derivatives mature in December 2021.

Hedging of net investments

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

equity by a total of SEK -168m (-122; -1,968) during the year. This result is largely due to hedges of net investments in USD and EUR. In 2019, 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 124m (353; 170). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK -11,550m. Essity's total foreign net investments at year-end amounted to SEK 71,797m. Currency derivatives and loans in foreign currency are used to hedge net investments.

Fair value hedges

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

Currency and energy derivatives, SEKm	Line in the Balance sheet	2019		2018		2017	
		Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Currency derivatives – cash flow hedges	Other non-current assets	–	–	–	–	60	7
Currency derivatives – cash flow hedges	Other current receivables	47	1	270	3	267	26
Currency derivatives – cash flow hedges	Other non-current liabilities	28	0	–	–	13	2
Currency derivatives – cash flow hedges	Other current liabilities	283	4	179	4	266	13
Energy derivatives – cash flow hedges	Other non-current assets	36	3	588	85	544	70
Energy derivatives – cash flow hedges	Other current receivables	68	7	901	262	712	146
Energy derivatives – cash flow hedges	Other non-current liabilities	516	42	128	8	63	3
Energy derivatives – cash flow hedges	Other current liabilities	994	230	281	17	148	11
Currency derivatives – hedging of net investments	Non-current financial assets	–	–	–	–	–	–
Currency derivatives – hedging of net investments	Current financial assets	4,499	68	10,470	143	4,303	60
Currency derivatives – hedging of net investments	Non-current financial liabilities	–	–	–	–	–	–
Currency derivatives – hedging of net investments	Current financial liabilities	2,691	86	2,726	15	18,599	230

Interest rate derivatives – hedging of fair value, SEKm

Interest rate derivatives – hedging of fair value changes					Line in the balance sheet		
Maturity date	Nominal amount	Change in fair value, hedged item	Change in fair value, derivatives	Ineffectiveness	Financial assets	Financial liabilities	Variable interest
2019							
Non-current derivatives							
2021	5,213	-11	11	0	33	-	Euribor 6m +0.5502-0.5527
2022	127	3	-3	0	3	0	Euribor 3m +0.698
2023	4,170	8	-13	-5	343	-	Euribor 6m +0.7215-0.73165
2025	3,128	-71	73	2	147	-	Euribor 6m +0.514-0.5168
	12,638	-71	68	-3	526	0	
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	0	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	0	
2017							
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	

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
2019							
Derivatives with hedge accounting in hedge reserve							
Cash flow hedges							
Energy risk	10	-272	-262	58	-204	112	3)
Currency risk	1	-4	-3	1	-2	14	4)
Total	11	-276	-265	59	-206		
Derivatives with hedge accounting without hedge reserve							
Hedges of net investments in foreign operations							
Currency risk ²⁾	68	-87	-19				
Fair value hedges							
Interest rate risk	526		526				
Total	605	-363	242	59	-206		
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		

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 Property, plant and equipment.

The results from hedging of net investments in foreign operations are recognized in the translation reserve, refer to Note E8 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 2020. With unchanged exchange rates, profit after tax will be affected in an amount of SEK 0m (0; neg. 1). Currency derivatives relating to hedging of the cost of non-current assets have a maturity spread until April 2021. With unchanged exchange rates, the cost of non-current assets will increase by SEK 2m (increase by 1; decrease by 15) after tax. The derivatives intended to hedge energy costs in the Group mature during 2020 and 2021. With unchanged prices, the Group's profit after tax will be affected negatively in an amount of SEK 204m (pos. 245; pos. 152).

E7. FINANCIAL INCOME AND EXPENSES

Financial income and expenses

SEKm	2019	2018	2017
Result from non-current financial assets			
Dividend	1	2	2
Interest income and similar profit items			
Interest income, investments	105	85	156
Other financial income	–	4	–
IS Total financial income	106	91	158
Interest expenses and similar loss items			
Interest expenses, borrowing	–884	–836	–882
Interest expenses, derivatives	–378	–354	–321
Interest expenses, lease liabilities	–110	–	–
Fair value hedges, unrealized	–3	–8	32
Other financial expenses	–40	–50	–169
IS Total financial expenses	–1,415	–1,248	–1,340
OCF Total	–1,309	–1,157	–1,182

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

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 company. When these shares are sold, the sales proceeds are included in retained earnings in the equity pertaining to owners of the Parent company.

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 62,801m (54,899; 49,570) at December 31, 2019. 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, 2019	2,350	5,003	39,788	47,141	7,758	54,899
IS Profit for the period			9,216	9,216	996	10,212
Other comprehensive income for the period						
Items that may not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans ¹⁾			479	479	3	482
Fair value through comprehensive income		6		6		6
TE8:2 Income tax attributable to components in other comprehensive income		–2	54	52	–	52
		4	533	537	3	540
Items that have been or may be reclassified subsequently to the income statement						
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		–725		–725		–725
Transferred to profit or loss for the period		112		112		112
Translation differences in foreign operations		1,869		1,869	226	2,095
Gains/losses from hedges of net investments in foreign operations		–168		–168		–168
Other comprehensive income from associated companies			–14	–14		–14
TE8:2 Income tax attributable to components in other comprehensive income		175	4	179		179
Other comprehensive income for the period, net of tax		1,267	523	1,790	229	2,019
CI Total comprehensive income for the period		1,267	9,739	11,006	1,225	12,231
Private placement to non-controlling interests			2	2	2	4
Divestment of non-controlling interests					27	27
Transferred to cost of hedged investments		14		14		14
CF OCF Dividend, SEK 5.75 per share ²⁾			–4,038	–4,038	–336	–4,374
BS Value, December 31	2,350	6,284	45,491	54,125	8,676	62,801

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 116m (123; 83) higher/lower. Sensitivity analysis calculations have been performed on the risk to which Essity was exposed at December 31, 2019 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 34.

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, 2018	2,350	3,154	36,785	42,289	7,281	49,570
Effect of changed accounting principle IFRS 9			-7	-7		-7
IS Profit for the period			7,886	7,886	666	8,552
Other comprehensive income for the period						
Items that may not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans ¹⁾			-1,038	-1,038	2	-1,036
Fair value through comprehensive income		-5		-5		-5
TE8:2 Income tax attributable to components in other comprehensive income		1	175	176		176
		-4	-863	-867	2	-865
Items that have been or may be reclassified subsequently to the income statement						
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		471		471		471
Transferred to profit or loss for the period		-378		-378		-378
Translation differences in foreign operations		1,876		1,876	204	2,080
Gains/losses from hedges of net investments in foreign operations		-122		-122		-122
Other comprehensive income from associated companies			23	23		23
TE8:2 Income tax attributable to components in other comprehensive income		5	-1	4		4
Other comprehensive income for the period, net of tax		1,848	-841	1,007	206	1,213
CI Total comprehensive income for the period		1,848	7,045	8,893	872	9,765
Private placement to non-controlling interests			3	3	2	5
Transferred to cost of hedged investments		1		1		1
CF OCF Dividend, SEK 5.75 per share ²⁾			-4,038	-4,038	-397	-4,435
BS Value, December 31	2,350	5,003	39,788	47,141	7,758	54,899
Value, January 1, 2017	0	4,061	29,143	33,204	6,376	39,580
IS Profit for the period			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 associated companies			-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
CI Total 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
CF OCF Dividend to non-controlling interests				-	-285	-285
BS Value, December 31	2,350	3,154	36,785	42,289	7,281	49,570

¹⁾ Including payroll tax.²⁾ Dividend of SEK 5.75 per share pertains to owners of the Parent company. For the 2019 fiscal year, the Board of Directors has decided to propose a dividend of SEK 6.25 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		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Value, January 1	107	107	107	245	166	164	-	6	6	4	-	-	4,647	2,875	3,784
Reclassification								-6			6				
Fair value through comprehensive income										6	-5				
Cash flow hedges:															
Result from remeasurement of derivatives recognized in equity				-725	471	35									
Transferred to profit or loss for the period				112	-378	-56									
Transferred to cost of hedged investments				-	-	10									
Acquired cash flow hedges						4									
Translation differences in foreign operations ³⁾				10	6	2				-	2		1,859	1,868	626
Gains/losses from hedges of net investments in foreign operations													-168	-122	-1,968
Tax on items recognized directly in/transferred from equity				138	-21	7				-2	1		37	26	433
Other comprehensive income for the period, net of tax	-	-	-	-465	78	2	-	-6	-	4	4	-	1,728	1,772	-909
Transfer to cost of fixed assets concerning hedged investments, net of tax				14	1										
Value, December 31	107	107	107	-206	245	166	-	-	6	8	4	-	6,375	4,647	2,875

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 translation difference relating to divested and liquidated companies is included in the amount of SEK -178m (0; -19).

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

SEKm	2019			2018			2017		
	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	482	54	536	-1,036	175	-861	1,061	-218	843
Fair value through comprehensive income	6	-2	4	-5	1	-4			
Cash flow hedges	-613	138	-475	93	-21	72	-11	7	-4
Translation differences in foreign operations	2,095	-	2,095	2,080	-	2,080	320	-	320
Other comprehensive income from associated companies	-14	4	-10	23	-1	22	-22	-1	-23
Gains/losses from hedges of net investments in foreign operations	-168	37	-131	-122	26	-96	-1,968	433	-1,535
Other comprehensive income for the period	1,788	231	2,019	1,033	180	1,213	-620	221	-399

At December 31, 2019, the debt/equity ratio amounted to 0.81 (0.99; 1.06). Changes in liabilities and equity are described in the Financial position section on page 33. 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 34. 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 18.

Transactions with shareholders**Specification of transactions with shareholders**

SEKm	2019	2018	2017
Dividend/Group contribution	-	-	-255
Contributions received	-	-	903
Tax effect	-	-	194
Total	-	-	842

F. GROUP STRUCTURE

F1. GROUP COMPANIES

AP ACCOUNTING PRINCIPLES

Group companies

The companies over which Essity has control are consolidated as Group companies. Control means that Essity has sufficient influence to control the activities of the Group company, 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 companies are wholly owned, which means that Essity has control over the companies. Essity owns 52% of Vinda, 50% of Familia and 49% of Sancela Tunisia and Unicharm Mölnlycke, over which Essity also has control.

Non-controlling interests

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

List of major Group companies

The Group's participations in Group companies at December 31, 2019 are presented below. The following selection of wholly owned Group companies or Group companies with significant non-controlling interests includes companies with external sales in excess of SEK 500m in 2019.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2019	Share of equity at December 31, 2018	Share of equity at December 31, 2017
Essity France SAS	509 395 109	Saint-Ouen, France	100	100	100
Essity Holding Netherlands B.V.	30-135 724	Zeist, Netherlands	100	100	100
Essity UK Ltd.	577 116	Dunstable, UK	100	100	100
Essity Professional Hygiene North America LLC	58-2494137	Delaware, USA	100	100	100
Vinda International Holdings Ltd ¹⁾	90235	Hong Kong, China	52	52	52
Essity Operations Wausau LLC	41-2218501	Wisconsin, USA	100	100	100
Essity Germany GmbH	HRB 713 332	Mannheim, Germany	100	100	100
Essity Hygiene and Health AB	556007-2356	Gothenburg, Sweden	100	100	100
Essity Spain S.L.	B28451383	Puigpelat, Spain	100	100	100
Essity Higiene y Salud Mexico, S.A. de C.V.	SCM-931101-3S5	Mexico City, Mexico	100	100	100
Productos Familia S.A. Colombia ¹⁾	8909001619	Medellin, Colombia	50	50	50
Productos Familia del Sancela Ecuador S.A. ¹⁾	179131437900	Quito, Ecuador	50	50	50
Productos Sancela del Peru ¹⁾	20255172884	Lima, Peru	50	50	25
Essity Italy S.p.A.	3 318 780 966	Altopascio, Italy	100	100	100
Essity LLC	1024700877200	Moscow, Russia	100	100	100
Essity Poland Sp.z.o.o.	KRS No. 0000427360	Warsaw, Poland	100	100	100
Essity Austria GmbH	FN 49537 z	Vienna, Austria	100	100	100
Essity Belgium SA-NV	BE0405.681.516	Stembert, Belgium	100	100	100
Essity Professional Hygiene Germany GmbH	HRB 710 878	Mannheim, Germany	100	100	100
Essity Canada Inc.	421984	Ontario, Canada	100	100	100
OY Essity Finland AB	0165027-5	Espoo, Finland	100	100	100
Essity HMS North America Inc.	23-3036384	Delaware, USA	100	100	100
Essity Norway AS	915 620 019	Oslo, Norway	100	100	100
Essity Switzerland AG	CH-020.3.917.992-8	Schenkon, Switzerland	100	100	100
Essity Denmark A/S	DK20 638 613	Allerød, Denmark	100	100	100
Essity Chile SA	94.282.000-3	Santiago de Chile, Chile	100	100	100
Essity Hungary Kft	01-09-716945	Budapest, Hungary	100	100	100
Uni-Charm Mölnlycke KK	0104-01-046146	Tokyo, Japan	49	49	49
Essity Czech Republic s.r.o.	485 36 466	Prague, Czech Republic	100	100	100
Essity Operations Allo SL	B31235260	Allo, Spain	100	100	100
Essity Slovakia s.r.o.	36590941	Gemerska 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	100
BSN Radiante SAS	652 880 519	Le Mans, France	100	100	100
BSN Medical Distribution Limited	04381725	Willerby, UK	100	100	100
BSN Medical Inc.	3269728	North Carolina, USA	100	100	100
BSN-Jobst GmbH	HRB 3482	Emmerich, Germany	100	100	100
Essity Canary Islands, SL (Sociedad Unipersonal)	B35089242	Telde, Spain	100	100	100
Essity Hijyen Ürünleri Sanayi ve Ticaret A.Ş.	640954	Istanbul, Turkey	100	100	100
Essity Centroamérica S.A.	3-101-211115	San José, Costa Rica	100	100	100
Sancela S.A.	B14561997	Tunis, Tunisia	49	49	49
Essity do Brasil Indústria e Comércio Ltda.	72.899.016/0001-99	Jarinu, Brazil	100	100	100

¹⁾ Essity has a small number of jointly owned Group companies with significant non-controlling interests, see Note F2 on page 100.

F2. JOINTLY OWNED GROUP COMPANIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Vinda

Vinda is one of China's largest hygiene companies and listed on the Hong Kong stock exchange. Essity's holding in Vinda amounts to 52%. Vinda's market capitalization on the Hong Kong stock exchange was SEK 20,266m (16,868; 19,705) at the end of the period.

Familia

Familia is 50% owned by Essity and the remaining shares are primarily owned by the Gomez family. Essity is deemed to have a controlling influence of Familia since it has control over the activities with the most significant impact on Familia's return. Familia operates in the South American market and sells Personal Care, Consumer Tissue and Professional Hygiene products.

Financial information

Financial information is disclosed below for both Group companies. Financial information has not been disclosed for other Group companies with significant non-controlling interests since no other individual company had a material impact on the Group's earnings and financial position.

The income statements and balance sheets as shown below are included in Essity's consolidated financial statements and consider adjustments for surplus values in connection with acquisitions.

Group companies with significant non-controlling interests, 100% of operations

SEKm	Vinda ¹⁾			Familia ¹⁾		
	2019	2018	2017	2019	2018 ⁴⁾	2017 ³⁾
Condensed income statement						
Net sales	19,355	16,543	14,728	7,603	7,047	6,286
Operating profit before amortization of acquisition-related intangible assets ²⁾	1,889	1,133	1,074	1,042	729	934
Operating profit ²⁾	1,882	1,127	1,067	1,032	947	934
Profit for the period	1,364	720	670	719	648	649
of which attributable to owners of the Parent company	709	374	348	371	334	316
Other comprehensive income for the period ⁵⁾	62	-13	163	191	-39	-325
of which attributable to owners of the Parent company ⁵⁾	32	-7	85	86	-78	-152
Comprehensive income for the period⁵⁾	1,426	707	833	910	609	324
of which attributable to owners of the Parent company ⁵⁾	741	367	433	457	256	164
of which attributable to non-controlling interests ⁵⁾	685	340	400	453	353	160
Dividend to non-controlling interests	146	125	107	151	227	122
Condensed balance sheet						
Non-current assets	20,556	19,834	18,324	3,861	3,231	2,450
Current assets	7,043	6,552	6,209	3,616	3,101	3,131
Total	27,599	26,386	24,533	7,477	6,332	5,581
Equity attributable to owners of the Parent company	9,110	8,373	7,871	2,281	1,975	1,946
Equity attributable to non-controlling interests	6,397	5,753	5,348	2,190	1,888	1,762
Non-current liabilities	5,399	5,799	5,730	1,080	811	394
Current liabilities	6,693	6,461	5,584	1,926	1,658	1,479
Total	27,599	26,386	24,533	7,477	6,332	5,581
Cash flow from operating activities	3,031	1,474	1,080	887	877	969
Cash flow from investing activities	-1,535	-1,310	-1,401	-58	-714	-203
Cash flow from financing activities	-1,625	-63	-329	-608	-634	-435
Cash flow for the period	-129	101	-650	221	-471	331

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

²⁾ For Familia, items affecting comparability in the amount of SEK 25m (41; 52) are included.

³⁾ Net sales have been adjusted for Familia.

⁴⁾ Net sales, operating profit before amortization of acquisition-related intangible assets, profit for the period and other comprehensive income for the period have been adjusted for Familia.

⁵⁾ Other comprehensive income and comprehensive income for the period have been adjusted for Vinda in 2018.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES

AP ACCOUNTING PRINCIPLES

Joint arrangements

Essity classifies its joint arrangements as joint ventures or joint operations, which are presented in Note F4 Joint operations on page 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 associated companies and joint ventures." Share of profits is calculated on the basis of Essity's share of equity in the respective joint venture. Joint arrangements recognized in accordance with the equity method are initially measured at cost. Measurement of acquired assets and liabilities is carried out in the same way as for Group companies.

Associated companies

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

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

F3. JOINT VENTURES AND ASSOCIATED COMPANIES, CONT.

Carrying amounts of joint ventures and associated companies

SEKm	2019	2018	2017
Joint ventures			
Value, January 1	171	144	130
Net increase in joint ventures ¹⁾	8	19	9
Translation differences	2	8	5
Value, December 31	181	171	144
Associated companies			
Value, January 1	606	918	966
Company acquisitions	3	–	3
Company divestments	–	–3	–
Net change in associated companies ¹⁾	43	–21	–28
Impairment of associated companies	–	–278	–
Reclassification between associated companies and Group companies	–	–6	–8
Translation differences	32	–4	–15
Value, December 31	684	606	918
BS TF3:1 Value, December 31, joint ventures and associated companies	865	777	1,062

¹⁾ Net increase for the period includes the Group's share of the profit after tax of joint ventures and associated companies, as well as items recognized directly in equity (both after deductions for any non-controlling interests). In addition, an adjustment is included for dividends received during the period, which amounted to SEK 8m (7; 5) for joint ventures and SEK 0m (79; 171) for associated companies.

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.

Essity's share of Asaleo Care amounted 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. During 2019, the company divested Consumer Tissue operations in Australia. Essity has recognized these transactions as items affecting comparability, see Note B3 on page 77.

Bunzl & Biach

Bunzl & Biach GmbH, Vienna, is Essity's single largest joint venture that operates in the recovered paper market and supplies raw materials to Essity's business.

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

SEKm	Joint ventures			Associated companies			Total		
	Bunzl & Biach			Asaleo Care Ltd					
	2019	2018	2017	2019	2018 ¹⁾	2017 ²⁾	2019	2018	2017
Condensed income statement									
Net sales	1,424	1,471	1,123	2,795	2,645	2,715	4,219	4,116	3,838
Depreciation/amortization	–13	–13	–11	–102	–169	–188	–115	–182	–199
Operating profit/loss	30	47	28	346	126	584	376	173	612
Interest income	–	–	–	3	3	2	3	3	2
Interest expenses	–	–	–	–80	–98	–76	–80	–98	–76
Other financial items	–	1	1	–4	–3	–2	–4	–2	–1
Tax expense	–9	–14	–7	–73	–23	–148	–82	–37	–155
Profit for the period, continuing operations	21	34	22	192	5	360	213	39	382
Profit/loss for the period, discontinued operations	–	–	–	–9	–710	14	–9	–710	14
Profit/loss for the period	21	34	22	183	–705	374	204	–671	396
Other comprehensive income for the period	–	–	–	–13	63	–61	–13	63	–61
Comprehensive income for the period	21	34	22	170	–642	313	191	–608	335
Condensed balance sheet									
Non-current assets	163	147	120	2,041	1,728	3,402	2,204	1,875	3,522
Cash and cash equivalents	31	12	19	216	426	194	247	438	213
Other current assets	167	238	174	969	885	1,250	1,136	1,123	1,424
Assets held for sale	–	–	–	–	1,131	–	–	1,131	–
Total assets	361	397	313	3,226	4,170	4,846	3,587	4,567	5,159
Non-current financial liabilities	69	118	92	1,114	2,061	1,975	1,183	2,179	2,067
Other non-current liabilities	69	67	47	171	131	257	240	198	304
Current financial liabilities	–	–	–	9	4	8	9	4	8
Other current liabilities	31	34	30	705	639	703	736	673	733
Liabilities directly linked to assets held for sale	–	–	–	–	294	–	–	294	–
Total liabilities	169	219	169	1,999	3,129	2,943	2,168	3,348	3,112
Net assets	192	178	144	1,227	1,041	1,903	1,419	1,219	2,047
Group share of net assets	94	87	71	444	376	685	538	463	756
Surplus value	74	71	62	191	187	185	265	258	247
Carrying amount of the companies	168	158	133	635	563	870	803	721	1,003
Carrying amount of other joint ventures	13	13	11	–	–	–	13	13	11
Carrying amount of other associated companies	–	–	–	49	43	48	49	43	48
BS TF3:2 Carrying amount of joint ventures and associated companies	181	171	144	684	606	918	865	777	1,062
Market value, December 31				3,745	3,144	5,232			

¹⁾ Amounts pertaining to 2018 have been restated in line with Asaleo's separate recognition of the divested Consumer Tissue operations in Australia.

²⁾ Amounts pertaining to the 2017 income statement have been restated in line with Asaleo's separate recognition of the divested Consumer Tissue operations in Australia.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES, CONT.

TF3:2 Carrying amounts of joint ventures and associated companies

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2019, %	Share of equity at December 31, 2018, %	Share of equity at December 31, 2017, %	Carrying amount December 31, 2019, SEKm	Carrying amount December 31, 2018, SEKm	Carrying amount December 31, 2017, SEKm
Joint ventures								
Bunzl & Biach GmbH	FN79555v	Vienna, Austria	49	49	49	168	158	133
Other						13	13	11
Associated companies								
Asaleo Care Ltd	61 154 461 300	Melbourne, Australia	36	36	36	635	563	870
Other						49	43	48
BS TF3:1 Carrying amount, December 31						865	777	1,062

F4. JOINT OPERATIONS

AF ACCOUNTING PRINCIPLES

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

Measurement of acquired assets and liabilities according to the proportional method is carried out in the same way as for Group companies. Essity

recognizes its proportional share of the company's assets, liabilities, income and expenses in its financial statements. A small number of companies within Essity are deemed to be joint operations: 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, 2019	Share of equity at December 31, 2018	Share of equity at December 31, 2017
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

AF ACCOUNTING PRINCIPLES

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

Shares and participations

SEKm	2019	2018	2017
Value, January 1	29	32	32
Increase through acquisitions	-	4	3
Divestments	-14	-8	-3
Other reclassifications	-7	-	-
Translation differences	-	1	-
BS Value, December 31	8	29	32

F6. ACQUISITIONS AND DIVESTMENTS OF GROUP COMPANIES AND OTHER OPERATIONS

AP ACCOUNTING PRINCIPLES

Acquisition of Group companies and other operations

Essity applies IFRS 3 Business Combinations for acquisitions. In business combinations, acquired assets and assumed liabilities are identified and 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 purchase consideration paid is higher than the net value of the acquired assets and assumed liabilities, the difference is recognized as goodwill. Any surplus value on property, plant and equipment is depreciated over the estimated useful life of the asset. Goodwill and strong trademarks with indefinite useful lives are not amortized; instead, they are subjected to annual impairment testing. Some trademarks and customer relations are amortized over their estimated useful lives. A purchase price allocation is considered preliminary until it is confirmed. A preliminary purchase price allocation is changed as soon as new information regarding assets/liabilities on the acquisition date is obtained, although the acquisition balance sheet must be confirmed not later than one year from the date of the acquisition. If the transferred consideration is contingent on future events, it is measured at fair value and any changes in value are recognized in profit or loss.

Transaction costs in conjunction with acquisitions are expensed when they occur.

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

Non-controlling interests

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

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

Acquisitions after controlling influence is achieved are recognized as an equity transaction, meaning the difference between the purchase consideration paid and the carrying amount of the non-controlling interests is recognized as an increase or decrease in equity attributable to the Parent Company's shareholders. The same accounting procedure applies for divestments that take place without the loss of a controlling influence.

Acquisitions in 2019

Other than a minor acquisition of the associate China-Euro Healthcare Management of SEK 3m, no new acquisitions were carried out. Payments pertaining to earlier acquisitions mainly concern the final settlement of SEK 129m after the acquisition price was finalized for the compulsory redemption of shares in Essity Hygiene Products SE in Germany, former PWA, most of which was recognized as a liability in 2013. In addition to this, earn-out payments of SEK 11m were paid in accordance with the conditions of the purchase agreement from the acquisition of Sensassure in Canada in 2016.

Acquisitions in 2018

During the first quarter of 2018, the preliminary purchase price allocation from 2017 was established for BSN medical.

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

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 Associated company according to the equity method. Remeasurement was carried out of the previous equity portion at fair value in the amount of SEK 72m and this is recognized as an item affecting comparability in profit or loss.

Other minor acquisitions amounted to SEK 3m. During the period, liabilities relating to acquisitions in previous years were settled in the amount of SEK 170m, of which SEK 108m related to non-interest-bearing operating liabilities and SEK 62m to a financial liability. The payments mainly concerned two earlier acquisitions in the USA 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 December 27 did not have any impact on the Group's net sales, adjusted EBITDA or adjusted 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.

F6. ACQUISITIONS AND DIVESTMENTS OF GROUP COMPANIES AND OTHER OPERATIONS, CONT.**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.

Acquisition balance sheets			
SEKm	2019	2018	2017
Intangible assets	-	77	13,472
Property, plant and equipment	-	381	1,351
Other non-current assets	3	1	333
Operating assets	-	313	3,286
Cash and cash equivalents	-	26	498
Provisions and other non-current liabilities	-	-45	-4,278
Net debt excl. cash and cash equivalents	-	-233	-13,042
Operating liabilities	-	-134	-1,352
Fair value of net assets	3	386	268
Goodwill	-	311	13,290
Consolidated value of share in associated companies	-	-8	-8
Revaluation of previously owned shares in associated companies	-	-225	-72
Non-controlling interests	-	-	-78
Consideration transferred	3	464	13,400
Consideration transferred	-3	-464	-13,400
Earn-out payment	-22	-	-
Settled debt pertaining to acquisitions in earlier years	-118	-23	-108
Cash and cash equivalents in acquired companies	-	26	498
Settled financial liability pertaining to acquisitions in earlier years	-	-	-62
CF Effect on Group's cash and cash equivalents, acquisition of operations	-143	-461	-13,072
of which recognized as acquisitions of holdings in Investing activities	-143	-461	-13,070
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
Settled financial liability pertaining to acquisitions in earlier years	-	-	62
OCF Acquisition of operations during the period, including net debt assumed	-143	-694	-26,045

Divestments of Group companies and other operations

In 2019, Essity divested its holding in the jointly owned company SCA Yildiz in Turkey. The divestment gave rise to a capital gain of SEK 14m excluding reversal of realized translation differences to profit or loss of SEK -149m, previously recognized in other comprehensive income. The net result of the divestments which amounted to SEK -135m is recognized as an item affecting comparability in profit or loss. A minor business in Medical Solutions in Brazil was divested without leading to a capital gain or loss. In addition to this, earn-out payments received concern two divestments from previous years of SEK 5m, which had a positive impact on earnings by a corresponding amount.

No divestments were carried out in 2018. Gain/losses and cash flow relate to earn-out payments for previously divested companies primarily in the USA. In 2017, non-current and operating assets were divested, primarily in the UK. All earnings were recognized in items affecting comparability in profit or loss.

Assets and liabilities included in divestments			
SEKm	2019	2018	2017
Intangible assets	59	-	-
Property, plant and equipment	130	-	31
Other non-current assets	1	-	-
Operating assets	93	-	16
Cash and cash equivalents	0	-	1
Net debt excl. cash and cash equivalents	-215	-	-
Other non-current liabilities	-7	-	-
Operating liabilities	-87	-	-4
Non-controlling interests	27	-	-
Gain/loss on sale ¹⁾	19	68	-2
Compensation received	20	68	42
Less:			
Receivable for unpaid purchase consideration	-15	-	-12
Cash and cash equivalents in divested companies	-	-	-1
CF Effect on Group's cash and cash equivalents, divestments	5	68	29
Less:			
Divested net debt excl. cash and cash equivalents	215	-	-
OCF Divestment of operations during the period, including net debt transferred	220	68	29

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

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE

AP ACCOUNTING PRINCIPLES

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

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

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

Non-current assets held for sale and discontinued operations

SEKm	2019	2018	2017
Buildings	28	31	9
Land	14	24	18
Machinery and equipment	–	14	15
BS Total	42	69	42

Non-current assets held for sale are attributable to:

- 2019: closure of a production plant in the USA
- 2018: closure of a production plant in the USA totaling SEK 30m and the closure of an operation in India totaling SEK 39m
- 2017: closure of operations in India

G2. LEASES

AP ACCOUNTING PRINCIPLES

When an agreement is entered into, the company must first consider whether the contract is or contains a lease. A contract is or contains a lease if:

- it contains an identified asset
- the lessee is entitled to essentially all economic benefits arising from the use of the identified asset
- the lessee is entitled to control the use of the asset

If any of the above conditions are not met, the contract is not regarded as a lease or containing a lease and is therefore classified as a service contract.

On the commencement date of the lease, meaning when the asset becomes available for use by Essity, a right-of-use asset and a financial liability are recognized in the balance sheet.

The right-of-use asset is measured at cost and includes the following:

- the value of the amount of the lease liability
- lease payments made on or before the commencement date, after deductions for any benefits received in conjunction with signing the lease.
- initial direct fees
- an estimate of expenses expected to be paid to restore the asset to the condition as stipulated in the terms of the lease

The right-of-use asset is recognized in the balance sheet under the heading Property, plant and equipment within the category non-current assets and

is depreciated on a straight-line basis over the shorter period of the asset's anticipated useful life and the lease term. The useful life is assessed on the basis of the length of the underlying contract taking into consideration the cancellation and renewal options.

The lease liability is measured at the present value of the following lease payments:

- fixed fees, less any incentive receivables
- variable lease payments due to an index or rate
- amounts expected to be paid in accordance with residual value guarantees
- the exercise price for a purchase option, if the lessee is reasonably certain of exercising the option
- financial penalties to be paid on termination of the lease, if the lease term reflects that the lessee will utilize this option.

Lease payments are normally discounted using Essity's incremental borrowing rate as the implicit rate of the lease cannot be readily determined in most cases. The incremental borrowing rate used is determined on the basis of the contract currency of the agreement and the length of the lease.

The lease liability is recognized in the balance sheet under the heading Non-current financial liabilities as well as Current financial liabilities. Lease liabilities are measured at amortized cost according to the effective interest method. The liability is remeasured when future payments are amended by index or by other means, such as a new assessment of future residual value commitments, or the exercise of purchase, renewal or cancellation options. When the lease liability is remeasured as described above, a corresponding adjustment of the value of the right-of-use asset is made. When making lease payments, the contribution is allocated between interest expense and amortization of the lease liability outstanding. In the consolidated cash flow statement, payments pertaining to the amortization of lease liability are recognized in financing activities and payments pertaining to interest expenses are recognized as interest paid. In profit or loss, depreciation of the right-of-use asset is recognized in operating profit while interest expense is recognized in financial expenses.

Essity has decided to apply the exemption rules for short-term leases and leases where the underlying asset has a low value. These leases are not included in the right-of-use asset or the liability. Lease payments for these contracts are expensed on a straight-line basis over the useful life. For 2018 and 2017, IAS 17 Leases was applied as operating lease payments were expensed.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

Assessments and assumptions must be used when reporting leases in accordance with IFRS 16 Leases. The two most significant are assessments concerning the length of the lease and the discount rate to be used. The implicit rate of the leases cannot be readily determined and lease payments are therefore discounted over the expected lease term using Essity's incremental borrowing rate. The incremental borrowing rate corresponds to what Essity would need to pay to use a loan to finance the purchase of an equivalent asset for a similar duration in the contract currency of the lease. The length of the lease is determined as the non-cancellable lease term together with terms that may be covered by an option to extend a lease if it is reasonably certain that the contract will be renewed and periods covered by an option to terminate the lease if it is reasonably certain that a possibility to cancel the lease will not be utilized. When assessing if it is reasonably certain that a renewal option or cancellation option will be used, all relevant facts and circumstances that create economic incentives or deterrents are taken into account. The assessment of the lease term is reviewed in cases where facts and circumstances have significantly changed.

Essity enters into leases on a continuous basis for office buildings, distribution centers and vehicles, such as trucks, forklifts and passenger cars.

G2. LEASES, CONT.

Lease terms for properties are generally between 3 and 15 years, while lease terms for vehicles are generally between 3 and 5 years. Essity also has leases with a shorter lease term than 12 months and leases pertaining to assets of low value, such as office equipment. For these, Essity has chosen to apply the exemption rules in IFRS 16 Leases, meaning the value of these contracts is not part of the right-of-use asset or lease liability. There are no significant extension periods not taken into account in the lease liability.

SEKm	Right-of-use assets				Lease liabilities
	Properties	Vehicles	Other	Total	
Value, January 1	3,357	410	14	3,781	3,786
Additional right-of-use, assets net	716	159	10	885	885
Leases divestments	-46	-	-	-46	-46
Depreciation	-656	-221	-7	-884	
Interest expenses					110
Payments					-948
Translation differences	75	10	0	85	85
Value, December 31	3,446	358	17	3,821	3,872

In addition to the expenses in the table above, Essity recognized SEK 255m relating to costs for short-term leases, leases of low-value assets and variable lease payments. The total earnings impact of leases, including depreciation and interest expenses, was SEK 1,249m in 2019. Lease payments totaled SEK 1,203m.

The maturity structure concerning undiscounted future lease payments during future lease terms is presented in Note E5 Liquidity risk on page 92.

Essity has entered into binding leases regarding office properties where the lease term has yet to begin, future lease payments for these contracts are SEK 174m distributed over 10 years.

G3. CONTINGENT LIABILITIES AND PLEDGED ASSETS**AP ACCOUNTING PRINCIPLES**

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

Contingent liabilities			
SEKm	2019	2018	2017
Guarantees for associated companies	1	3	5
customers and others	45	44	43
Other contingent liabilities	50	333	294
Total	96	380	342

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

Pledged assets			Total		
SEKm	Pledged assets related to financial liabilities	Other	2019	2018	2017
Real estate mortgages	21	-	21	27	65
Chattel mortgages	39	-	39	34	31
Other	54	230	284	277	250
Total	114	230	344	338	346

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

G4. TRANSACTIONS WITH RELATED PARTIES

Essity was part of the listed company SCA until June 15, 2017 when Essity was distributed to shareholders and listed on Nasdaq Stockholm. Up until the split in 2017, Essity had the following transactions with SCA units, both the former Forest Products business areas and the Parent Company Svenska Cellulosa Aktiebolaget SCA. These transactions are outlined in table **TG4:1** below.

Purchases from Forest Products related 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. The financial income was attributable to the internal bank's lending to Forest Products.

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 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.

Essity owns 36.2% of Asaleo Care Ltd, listed on the stock market in Australia (ASX). Sales to Asaleo mainly concern products in Professional Hygiene and Incontinence Products. Transactions and dealings are outlined in table **TG4:2** below.

Essity owns 49% of Bunzl & Biach. Purchases from Bunzl & Biach relate mainly to raw materials in the form of recovered paper. Transactions and dealings are outlined in table **TG4:3** below.

TG4:1 Transactions with SCA

SEKm	2019	2018	2017
Purchases	-	-	214
Financial income	-	-	70
Financial expenses	-	-	-9

TG4:2 Transactions and dealings with associated companies, Asaleo Care

SEKm	2019	2018	2017
Sales	424	448	386
Purchases	-	8	31
Other income	36	41	41
Trade receivables	52	110	87
Trade payables	-	-	3

TG4:3 Transactions and dealings with joint ventures, Bunzl & Biach

SEKm	2019	2018	2017
Purchases	319	316	296
Trade payables	23	57	29

G5. CHANGES DUE TO NEW ACCOUNTING RULES

IFRS 16 Leases

When the new standard came into effect on January 1, 2019, Essity chose to 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. Comparative years were not restated. Upon transition on January 1, 2019, the lease liability was measured at the outstanding lease payments during the remaining lease term and the right-of-use asset for all leases totaled 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 apply the simplification rule 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 provisions relating to onerous leases in accordance with IAS 37. This practical solution was chosen as an alternative to performing impairment testing in conjunction with the transition to IFRS 16. Only marginal reclassifications took place concerning provisions for onerous leases and accrued and prepaid lease payments. An incremental borrowing rate has been set by currency. The average incremental borrowing rate on January 1, 2019 was approximately 3%. The transition did 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 lease 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.

When the standard became effective on January 1, 2019, the following adjustments were recognized in Essity's balance sheet.

SEKm	Preliminary opening balance in the Annual and Sustainability Report 2018	Adjusted opening balance January 1, 2019
Right-of-use asset	3,694	3,781
Non-current financial lease liabilities	2,990	3,146
Current financial lease liabilities	694	640
Provisions (reclassification to right-of-use asset)	26	30
Prepaid and accrued lease payments (reclassification to right-of-use asset)	36	25

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 in the Annual and Sustainability Report 2018	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 liability at January 1, 2019 according to the Annual and Sustainability Report 2018	3,684
Adjustment of lease liability after the publication of the Annual and Sustainability Report 2018	102
Adjusted lease liability at January 1, 2019	3,786

The preliminary adjustments in Essity's balance sheet attributable to the transition to IFRS 16 Leases were published on page 63 in the Annual and Sustainability Report 2018. During the first quarter of 2019, new information emerged concerning a number of leases which led to an increase in the preliminary opening balance pertaining to right-of-use assets from SEK 3,694m to SEK 3,781m and lease liability increased from SEK 3,684m to SEK 3,786m.

Financial statements, Parent Company

Income statement **IS**

SEKm	Note	2019	2018
Administrative expenses		-663	-738
Other operating income		209	192
Operating loss	PC2	-454	-546
Financial items	PC10		
Result from participations in Group companies		5,445	18,347
Interest income and similar profit items		277	329
Interest expenses and similar loss items		-1,170	-1,028
Total financial items		4,552	17,648
Profit after financial items		4,098	17,102
Appropriations	PC4	-3	0
Income taxes	PC4	27	-940
Profit for the period		4,122	16,162

Statement of comprehensive income

SEKm	2019	2018
Profit for the period	4,122	16,162
Other comprehensive income	-	-
Total comprehensive income	4,122	16,162

Cash flow statement **CF**

SEKm	2019	2018
Operating activities		
Profit after financial items	4,098	17,102
Adjustment for non-cash items T:1	536	1,893
Paid tax	-7	0
Cash flow from operating activities before changes in working capital	4,627	18,995
Change in operating receivables	650	45,190
Change in operating liabilities ¹⁾	-71	-47,967
Cash flow from operating activities	5,206	16,218
Investing activities		
Acquisition of subsidiaries	-826	-7,007
Acquisition of fixed assets	-14	-1
Cash flow from investing activities	-840	-7,008
Financing activities		
Loans raised	4,265	2,000
Amortization of debt	-4,592	-7,172
Dividend paid	-4,039	-4,038
Cash flow from financing activities	-4,366	-9,210
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	2019	2018
Depreciation of fixed assets	2	2
Change in accrued items	549	1,870
Impairment of shares in subsidiaries	-	53
Payments relating to efficiency program already recognized	-3	-
Change in provisions	-12	-32
Total	536	1,893

¹⁾ Deals of the Parent Company with the Swedish Group companies relating to Group contributions and internal tax are recognized as Change in operating receivables or Change in operating liabilities, respectively.

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

Supplementary disclosures

Interest and dividends paid and received	2019	2018
Dividends received	4,044	16,255
Group contribution received	2,145	105
Group contribution paid	-	-678
Interest paid	-1,112	-1,004
Interest received	232	250
Total	5,309	14,928

Change in liabilities attributable to financing activities

SEKm	Value, January 1	Cash flow	Translation difference	Value, December 31
Non-current interest-bearing liabilities	39,226	-3,193	353	36,386
Current interest-bearing liabilities	6,430	-1,400	-8	5,022
Current liabilities to Group companies	40,816	3,764	-	44,580
Current receivables from Group companies	-502	502	0	-
Total	85,970	-327	345	85,988

Balance sheet **BS**

SEKm	Note	2019	2018
Assets			
Non-current assets			
Capitalized development costs		0	0
Intangible assets	PC5	0	0
Machinery and equipment		16	5
Property, plant and equipment	PC6	16	5
Participations in subsidiaries	PC7	175,448	174,622
Receivables from Group companies	PC8	545	507
Other non-current receivables		227	213
Deferred tax assets	PC4	132	105
Financial non-current assets		176,352	175,447
Total non-current assets		176,368	175,452
Current assets			
Receivables from Group companies	PC8	1,762	3,016
Current tax assets	PC4	11	4
Other current receivables	PC9	21	21
Total current assets		1,794	3,041
Total assets		178,162	178,493
Equity, provisions and liabilities			
Equity	PC12		
Share capital		2,350	2,350
Statutory reserve		0	0
Total restricted equity		2,350	2,350
Retained earnings		83,820	71,697
Profit for the period		4,122	16,162
Total non-restricted equity		87,942	87,859
Total equity		90,292	90,209
Untaxed reserves	PC4	4	1
Provisions			
Provisions for pensions	PC3	875	873
Other provisions		2	6
Total provisions		877	879
Non-current liabilities			
Non-current interest-bearing liabilities	PC10	36,386	39,226
Total non-current liabilities		36,386	39,226
Current liabilities			
Liabilities to Group companies	PC8	45,054	41,249
Current interest-bearing liabilities	PC10	5,022	6,430
Accounts payables		16	20
Other current liabilities	PC11	511	479
Total current liabilities		50,603	48,178
Total equity, provisions and liabilities		178,162	178,493

Change in equity (Refer also to Note PC12)

SEKm	Share capital	Statutory reserve	Retained earnings and profit for the period	Total equity
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
Profit for the period			4,122	4,122
Dividend, SEK 5.75 per share			-4,039	-4,039
Equity at December 31, 2019	2,350	0	87,942	90,292

PC. PARENT COMPANY NOTES**PC1. BASIS FOR PREPARATION OF PARENT COMPANY'S ANNUAL ACCOUNTS**

The Parent Company has prepared its financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2 Accounting for Legal Entities. According to RFR 2, the Parent Company is to apply all the International Financial Reporting Standards adopted by the EU as far as this is possible within the framework of the Swedish Annual Accounts Act.

The same accounting 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.

The changes in RFR 2 applicable to the fiscal year beginning January 1, 2019 related to IFRS 16 Leases.

PC2. OPERATING PROFIT/LOSS

Operating profit/loss by type of cost			
SEKm	Note	2019	2018
Other operating income		209	192
Other external costs		-302	-396
Personnel and Board costs		-359	-340
Amortization of capitalized development costs	PC5	-	0
Depreciation of equipment	PC6	-2	-2
IS Total		-454	-546

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	2019	2018
EY		
Audit assignments	-13	-13
Auditing activities other than the audit assignment	0	0
Tax consultancy services	0	0
Other assignments	-2	-2
Total	-15	-15

Leasing**AP ACCOUNTING PRINCIPLES**

IFRS 16 Leases came into effect on January 1, 2019. RFR 2 contains an exception allowing all leases to be recognized in profit or loss.

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

SEKm	2019	2018
Within 1 year	31	24
Between 2 and 5 years	117	7
Later than 5 years	142	-
Total	290	31

Cost for the period for leasing of assets amounted to SEK -26m (-25). Leased assets comprise means of transportation and office premises.

PC3. PERSONNEL AND BOARD COSTS

Salaries and remuneration		
SEKm	2019	2018
Board of Directors ¹⁾ , President, Executive Vice President and senior executives (4 (4))	-77	-67
of which variable remuneration	-35	-22
Other employees	-137	-118
Total	-214	-185

¹⁾ Board fees decided by the Annual General Meeting amounted to SEK -9m (-9). For further information, see Notes C1-C4 on pages 80-84.

Social security costs		
SEKm	2019	2018
Total social security costs	-141	-147
of which pension costs ²⁾	-75	-89

²⁾ Of the Parent Company's pension costs, SEK -14m (-14) 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 59m (46).

Pension costs		
SEKm	2019	2018
Self-administered pension plans		
Costs excluding interest expense	-52	-38
Interest expense (recognized in personnel costs)	-6	-5
Sub-total	-58	-43
Retirement through insurance		
Insurance premiums	-21	-31
Other	23	4
Sub-total	-56	-70
Policyholder tax	0	0
Special payroll tax on pension costs	-16	-16
Cost of credit insurance, etc.	-3	-3
Pension costs for the period	-75	-89

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK -2m (-2). Premiums for 2020 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 -4m (-8).

PC3. PERSONNEL AND BOARD COSTS, CONT.

Average number of employees	2019	2018
Sweden	106	110
of whom women, %	52	49

Breakdown of employees by age groups, %	21-30 years	31-40 years	41-50 years	51-60 years	61+ years
2019	3	21	39	29	8

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

Provisions for pensions**AP ACCOUNTING PRINCIPLES**

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

PRI Pensions

Pension liabilities pertaining to PRI pensions have been secured through a common Swedish Essity pension fund. The market value of the Parent Company's portion of the foundation's assets at December 31, 2019, amounted to SEK 236m (191). In 2019, compensation was received in the amount of SEK 6m (6). The capital value of the pension obligations at December 31, 2019 amounted to SEK 171m (159). Pension payments of SEK -6m (-5) were made in 2019. In 2019, the assets exceeded pension obligations by SEK 65m (32).

Other pension obligations

The Group's Note C2 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	2019	2018
Value, January 1	873	878
Costs excluding interest expense	52	38
Interest expense (recognized in personnel costs)	6	5
Payment of pensions	-56	-48
BS Value, December 31	875	873

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 0.7% (0.6). The defined benefit obligations are calculated based on salary levels valid on the respective balance sheet dates. Next year's expected payments for the above defined benefit pension plans amount to SEK 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.

PC4. INCOME TAXES**AP ACCOUNTING PRINCIPLES**

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

Tax expense

Tax expense (+), tax income (-)	2019	2018
SEKm		
Deferred tax	-27	940
Current tax	0	-
IS Total	-27	940

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	2019		2018	
	SEKm	%	SEKm	%
IS Profit before tax	4,095		17,102	
IS Tax expense/income	-27	-0.7	940	5.5
Expected tax	876	21.4	3,763	22.0
Difference	-903	-22.1	-2,823	-16.5
The difference is due to:				
Taxes related to prior periods	4	0.0	0	0.0
Non-taxable dividends from subsidiaries	-865	-21.1	-3,576	-20.9
Non-taxable Group contributions from Group companies ¹⁾	-174	-4.2	-	-
Non-deductible Group contributions from Group companies ¹⁾	-	-	713	4.2
Non-deductible interest expenses	129	3.1	-	-
Other non-taxable/non-deductible items	3	0.1	30	0.2
Changed tax rate	0	0.0	10	0.0
Total	-903	-22.1	-2,823	-16.5

¹⁾ Non-taxable and non-deductible Group contributions relate to repayment from/to the Group company that pays the majority of the Group's total Swedish taxes, which amount to 78.6% (78) of the Group contribution.

The Parent Company participates in the Group's tax pooling arrangement. Group contributions paid were treated as a tax deductible expense and received Group contributions were treated as non-taxable revenue. The net of paid and received Group contributions amounts to 21.4% (22) and is the amount of the company's tax cost for the Group. In addition, the Parent Company has received Group contributions from another Swedish Group company, part of which was accounted for as non-taxable income.

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

SEKm	2019	2018
Value, January 1	-4	-4
Current tax expense	0	-
Paid tax	-7	0
BS Value, December 31	-11	-4

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

SEKm	2019	2018
Changes in temporary differences	-31	940
Adjustments for prior periods	4	0
Total	-27	940

Deferred tax assets (-)

SEKm	Value, January 1	Deferred tax expense	Value, December 31
Provisions for pensions	-179	0	-179
Tax loss carryforwards	-2	2	0
Other	76	-29	47
BS Total	-105	-27	-132

Appropriations and untaxed reserves

Accumulated depreciation in excess of plan totaling SEK 4m (1) is included in the Parent Company's untaxed reserves.

PC5. INTANGIBLE ASSETS

Capitalized development costs

SEKm	2019	2018
Accumulated costs	0	0
Accumulated amortization	0	0
Residual value according to plan	0	0
Value, January 1	0	0
Investments	–	–
Sales and disposals	–	–
Amortization for the period	–	0
BS Value, December 31	0	0

PC6. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Essity Aktiebolag's property, plant and equipment are recognized in accordance with the Group's accounting principles.

Equipment

SEKm	2019	2018
Accumulated costs	21	8
Accumulated depreciation	–5	–3
Residual value according to plan	16	5
Value, January 1	5	5
Investments	13	1
Sales and disposals	0	0
Depreciation for the period	–2	–1
BS Value, December 31	16	5

PC7. PARTICIPATIONS IN SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Essity Aktiebolag recognizes all holdings in subsidiaries at cost after deduction for any accumulated impairment losses. Impairment testing occurs annually.

Participations in subsidiaries

SEKm	Subsidiaries	
	2019	2018
Accumulated costs	175,508	175,943
Accumulated impairment	–60	–1,321
Carrying amount	175,448	174,622
Value, January 1	174,622	167,614
Investments	834	30,947
Divestments	–0	–23,887
Impairment for the period	–8	–52
BS TPC7:1 Value, December 31	175,448	174,622

During the fiscal year, the company provided a capital contribution of SEK 826m to Essity TC AB (which changed its name from Lejenbrottet Aktiebolag during the year) and invested SEK 8m in SCA Hygiene Products India Private Limited. An impairment of the Indian holding also took place in an amount of SEK 8m. During the fiscal year, the company also sold all shares in SCA Hedging AB to another Group company for SEK 0m.

TPC7:1 Essity Aktiebolag's holdings of shares and participations in subsidiaries, December 31, 2019

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	0.1
Essity Försäkringsaktiebolag	516401-8540	Stockholm, Sweden	140,000	100	14.0
Essity TC AB	556643-7298	Stockholm, Sweden	1,000	100	826.1
Foreign subsidiaries:					
Essity Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	174,328.1
Essity Italy S.p.A	3318780966	Capannori, Italy	125,000	25	279.2
SCA Hygiene Products India Private Limited	U17253MH2012FTC231579	Mumbai, India	5,701,945	2.17	0.1
Total carrying amount of subsidiaries					175,448

German Group companies that are subject to disclosure exemptions

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

- Essity GmbH, domicile in Mannheim, Germany
- Essity Holding GmbH, domicile in Ismaning, Germany
- Essity Operations Neuss GmbH, domicile in Neuss, Germany
- Essity Operations Mannheim GmbH, domicile in Mannheim, Germany
- Essity Operations Mainz-Kostheim GmbH, domicile in Wiesbaden, Germany
- Essity Professional Hygiene Germany GmbH, domicile in Mannheim, Germany
- Essity Germany GmbH, domicile in Mannheim, Germany
- Essity Operations Witzenhausen GmbH, domicile in Witzenhausen, Germany
- Essity Hygiene Holding GmbH, domicile in Mannheim, Germany
- BSN medical GmbH, domicile in Hamburg, Germany
- BSN medical IP GmbH, domicile in Hamburg, Germany
- BSN-Jobst GmbH, domicile in Emmerich am Rhein, Germany

PC8. RECEIVABLES FROM AND LIABILITIES TO GROUP COMPANIES

Receivables from and liabilities to Group companies

SEKm	2019	2018
Fixed assets		
Derivatives	545	507
BS Total	545	507
Current assets		
Interest-bearing receivables	–	502
Financial derivatives	56	158
Trade receivables	239	211
Other receivables	1,467	2,145
BS Total	1,762	3,016
Current liabilities		
Interest-bearing liabilities	44,580	40,816
Financial derivatives	396	229
Accounts payables	20	32
Other liabilities	58	172
BS Total	45,054	41,249

PC9. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2019	2018
TPC9:1 Prepaid expenses and accrued income	17	17
Other receivables	4	4
BS Total	21	21
TPC9:1 Prepaid expenses and accrued income		
Prepaid lease of premises	7	7
Prepaid financial expenses	1	1
Prepaid insurance premiums	0	–
Other items	9	9
Total	17	17

PC10. FINANCIAL INSTRUMENTS

AP ACCOUNTING PRINCIPLES

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

Financial items

SEKm	2019	2018
Result from participations in Group companies		
Dividends from subsidiaries ¹⁾	4,044	16,255
Group contributions received from Group companies	1,466	2,144
Group contributions paid to subsidiaries	–57	–
Impairment of shares in subsidiaries	–8	–52
Interest income and similar profit items		
Interest income, external	11	8
Interest income, Group companies	266	321
Interest expenses and similar loss items		
Interest expenses, external	–523	–532
Interest expenses, Group companies	–614	–460
Other financial expenses ²⁾	–33	–36
IS Total	4,552	17,648

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 –1m (6), net.

Interest-bearing liabilities

Non-current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2019	2018	2019	2018
Bond issues	31,164	33,767	32,299	34,427
Other non-current loans with a term > 1 yr < 5 yrs	5,222	3,406	5,238	3,425
Other non-current loans with a term > 5 yrs	–	2,053	–	1,960
BS Total	36,386	39,226	37,537	39,812

Current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2019	2018	2019	2018
Bond issues	–	3,000	–	3,000
Loans with maturities of less than one year	5,022	3,430	5,022	3,430
BS Total	5,022	6,430	5,022	6,430

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate %
Notes EUR 500m	2021	5,205	5,251	0.50
Notes EUR 600m	2022	6,234	6,321	0.63
Notes EUR 500m	2023	5,191	5,600	2.50
Notes EUR 600m	2024	6,233	6,434	1.13
Notes EUR 300m	2025	3,122	3,219	1.13
Notes EUR 500m	2027	5,179	5,474	1.63
Total		31,164	32,299	

Financial instruments by category

AP ACCOUNTING PRINCIPLES

In 2019, the categories of financial instruments in the Parent company comprised in accordance with IFRS 9 financial assets and liabilities measured at fair value through profit or loss and amortized cost. All of the Parent Company's financial assets and liabilities measured at fair value through profit or loss are assessed according to measurement level 2. A definition is provided in Note E1, page 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.

PC10. FINANCIAL INSTRUMENTS, CONT.

Financial instruments by category			
SEKm	Note	2019	2018
Financial assets measured at fair value through profit or loss			
Derivatives with Group companies – Non-current financial assets	PC8	545	507
Endowment insurances – Other non-current receivables		227	213
Derivatives with Group companies – Current financial assets	PC8	56	158
Total		828	878
Financial liabilities measured at fair value through profit or loss			
Derivatives with Group companies – Current financial liabilities	PC8	396	229
Total		396	229
Loan and trade receivables measured at amortized cost			
Current interest-bearing receivables with Group companies	PC8	–	502
Trade receivables with Group companies	PC8	239	211
Trade receivables – other current receivables		1	0
Total		240	713
Financial liabilities measured at amortized cost			
Non-current interest-bearing liabilities		36,386	39,226
Current interest-bearing liabilities to Group companies	PC8	44,580	40,816
Current interest-bearing liabilities		5,022	6,430
Trade payables to Group companies	PC8	20	32
Trade payables		16	20
Other current liabilities to Group companies	PC8	1	3
Other current liabilities		274	297
Total		86,299	86,824

The nominal value of the derivatives before the right of set-off is SEK 52,915m (136,392). The nominal value of the derivatives after the right of set-off is SEK 40,309m (56,561).

PC11. OTHER CURRENT LIABILITIES

Other current liabilities		
SEKm	2019	2018
TPC11:1 Accrued expenses and prepaid income	460	432
Other operating liabilities	51	47
BS Total	511	479

TPC11:1 Accrued expenses and prepaid income		
SEKm	2019	2018
Accrued interest expenses	274	297
Accrued social security costs	69	53
Accrued vacation pay liability	14	16
Other liabilities to personnel	80	43
Other items	23	23
Total	460	432

PC12. 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
2019	Number of shares, December 31, 2019	702,342,489	2,350.4	0.5

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

PC13. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities		
SEKm	2019	2018
Guarantees for Group companies	16,890	16,878
Other contingent liabilities	60	78
Total	16,950	16,956
Pledged assets		
SEKm	2019	2018
Other	227	213
Total	227	213

PC14. ADOPTION OF THE ANNUAL ACCOUNTS

The annual accounts are subject to adoption by Essity Aktiebolag's Annual General Meeting and will be presented for approval at the Annual General Meeting on April 2, 2020.

PC15. 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 social and environmental data reported pertains to the 2019 calendar year. The figures included comply with relevant reporting and consolidation principles in the financial statements. The figures cover Essity's wholly owned Group companies and Group companies in which Essity owns at least 50%. If ownership in the Group company is at least 50% or more, the entire company is included in the reporting.

For Group companies with significant non-controlling interests (see Note F2), such as the Chinese company Vinda and the Colombian company Familia, social data, such as employee figures, employee turnover and health and safety data is reported in notes H13 and H14. Some other social data is not included, for example Note H2 Code of Conduct data, as these companies 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 data from divested companies is excluded in its entirety as of the divestment date. Historic data for discontinued units is retained.

Data collection

Data provided in the report is compiled through various systems, primarily Essity's reporting system for non-financial data and the Group's financial consolidation system.

The data in this report includes, as a general rule, all companies. The targets in the report apply, as a general rule, to wholly owned companies.

Environmental reporting encompasses 75 production sites, covering virtually the entire company's environmental impact and resource utilization from production. Data from stand-alone tissue converting sites is included in data for the tissue plant.

Each unit reports the following data to the system:

- raw material consumption
- incoming and outgoing shipments
- production volumes
- energy consumption broken down by electricity, steam and fuel
- fuel consumption broken down by biofuels and fossil fuels
- air emissions, including data on fossil and biogenic carbon dioxide
- water emissions
- solid waste

The calculation of greenhouse gas emissions for Scope 1, 2 and 3 of Science Based Targets encompasses 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. (Scope 1 emissions)
- emissions of greenhouse gases from purchased electricity are calculated using the country's emission factor published by the International Energy Agency (IEA), 2016. (Scope 2 emissions, location-based)

Comparability

This is Essity's third integrated Annual and Sustainability Report. The previous year's report is from March 13, 2019. Figures from previous years are reported in parenthesis.

Environmental impact

Essity conducts operations requiring a permit through its production facilities. Such operations impact the environment through emissions to air and water, solid waste and noise.

GRI reporting

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

The UN Guiding principles

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

H2. CODE OF CONDUCT AND WORK WITH ANTI-CORRUPTION

Essity's target is for all employees to receive regular training in the Code. In 2019, the company launched an updated Code of Conduct including a new training course. A total of 96% of Essity's employees underwent this mandatory course.

Risk analysis

Essity conducts regular risk assessments and complies with the UN Guiding Principles on Business and Human Rights. Essity's human rights and corruption risk analysis is based partly on assessments carried out by Transparency International and Sedex. About 34% of Essity's revenue comes from sales to countries with a relatively high risk of corruption. In the 2019 Sedex assessment, all of Essity's main facilities received a low to medium risk classification relating to human rights and corruption.

Reported breaches of the Code of Conduct

In 2019, 88 (81; 63) cases of potential breaches of laws or of the Code of Conduct were reported to Essity's whistleblower system. Among the reported complaints, six related to the suspicion of corruption. All of the six investigations were closed during the year without any corruption being identified. No one was dismissed on suspicion of corruption. Other reported complaints included 65 HR-related incidents and concerned accusations of discrimination and harassment. The remaining 17 cases concerned potential violations of the company's other policies.

Internal audits conducted of the Code of Conduct

In 2019, internal audits were conducted of the Code of Conduct at facilities in Germany, India, Brazil and France. All parts of the audit of the facility in Germany fulfilled SA8000. The facility in India must improve its efforts regarding dangerous chemicals and other aspects of health and safety. The facility in Brazil must improve its working climate between employees and its management of production waste. The facility in France needs to improve its health and safety and its compliance with local regulations. An action program is in place and has or will be implemented in 2020.

Internal audits conducted of business ethics

In 2019, business ethics audits were conducted in India, the US and Ukraine. The audits found that Essity's operations in India must improve working conditions for sales personnel and continue to implement Essity's policies and instructions and to conduct training sessions. Professional Hygiene operations in the US demonstrate consistent effective control and follow-up but require minor improvements in registering conflicts of interest and increase the number of business partners who sign Essity's Business Partner Code of Conduct. Essity has good control of its business operation in Ukraine, but must improve documentation of participants in training courses concerning the Code of Conduct and carry out a risk management process in relation to anti-corruption. Action plans are in place and have been, or will be, implemented in 2020.

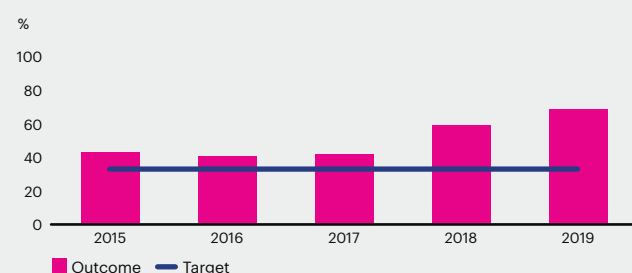
Ongoing anti-trust cases

In early 2020, the Supreme Court in Chile rejected the company's appeal against the Chilean competition authority's decision to impose a fine from December 2017.

H3. INNOVATION

Essity's Group target is that at least 33% of the company's innovations are to yield social and/or environmental improvements. 69% (59; 42) of Essity's innovations yielded social and/or environmental improvements. This refers to the percentage of sales of innovations measured over 36 months.

People and nature innovations



Carbon footprint reduction

Carbon footprint reduction, %	
Incontinence Products	2008–2019, %
TENA Flex	-18
TENA Lady	-33
TENA Comfort	-19
TENA Men	-20
TENA Pants	-33
TENA Slip	-20
TENA Bed	-11
Feminine Care	
Feminine Ultra towels	-17
Professional Hygiene	2011–2019, %
Tork napkins	-9
2011–2017, %	
Tork paper hand towels	-18
Consumer Tissue	2011–2018, %
Toilet paper	-10
Household towels	-19
Baby Care	2008–2017, %
Libero and Lotus open diaper	-25
Libero and Lotus pant diaper	-16

The life cycle assessments performed by Essity have been verified by the Swedish Environmental Research Institute (IVL). The table is updated every second year and existing results relate to the range of products in Europe.

H4. CUSTOMERS AND CONSUMERS

Every business unit has processes to investigate customer satisfaction. Essity also offers expertise and support for the development of operations in, for example, nursing homes and professional environments, where the company can help make a difference and create value for its customers and users. Essity places high value on opportunities for direct customer contact. Customer feedback enables Essity to offer better products and services.

The retail trade accounts for a significant part, 58%, 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.

Customer surveys

Essity conducts systematic customer and consumer follow-up, which includes external reports, independent surveys and global systems for feedback. Complaints have remained at a low and stable level in recent years. For Personal Care products, the complaint frequency is lower than 1 in a million supplied products. In the Tissue operations, the corresponding figure is 2.5 per thousand tons.

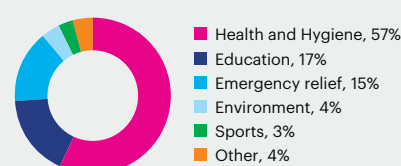
H5. COMMUNITY RELATIONS AND ROLE IN SOCIETY

Essity strives to be a dedicated partner in the local communities in which it operates. This work includes arranging education courses in hygiene and health for customers and consumers. In 2019, the collaboration between Essity and UNICEF in Mexico was strengthened to jointly promote awareness among school children, teachers and parents of the importance of good hand hygiene and to break the taboo around menstruation.

Essity invested approximately SEK 38m (18; 16) and about 8,000 work hours (including staff management) in over 350 projects in 2019. 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. Essity did not support any organizations or projects with political or religious aims in 2019.

Community relations by focus area 2019



H6. PACKAGING

Essity's target for 2025 is that the company's packaging is to be 100% recyclable and is to comprise at least 85% renewable or recycled material. This target applies to both paper and plastic packaging and is based on usage in Essity's wholly owned production facilities. Consumption mainly comprises bags and flexible plastic film for plastic packaging as well as corrugated board and board for paper-based packaging. During 2019, the company's packaging for hygiene and health products comprised approximately 68% renewable or recycled material.

H7. SUPPLY CHAIN MANAGEMENT

Essity's target 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. The target for 2020 is that 100% of all strategically important sourcing categories and sourcing from high-risk areas, which corresponds to 90% of Essity's total purchase cost, is to comply with Essity's Global Supplier Standard. In 2019, 85% (71; 74) of the procurement spend was sourced from suppliers who fulfill these 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.

Ethical audit results

During 2019, Essity evaluated the outcome from 52 (59; 25) ethical supplier audits, of which 45 (30; 16) carried out in India, Sri Lanka, Turkey, Colombia, China, Malaysia, Brazil, United Arab Emirates, Mexico and Vietnam. Of these audits, 33 were carried out by Essity using an independent audit firm. The other 19 (29; 9) ethical audits, which meet Essity's requirements, were carried out by other customers to suppliers and were approved by Essity.

Essity is informed within 24 hours in cases of critical observations. To date, these types of observations were due to a lack of supervision at the production facility which allowed unauthorized access to the facility, excessive overtime, non-payment of overtime, 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 2019.

Risk exposure in Essity's supplier base

Approximately 81% of Essity's supplier base is located in Europe, 18.5% in North and South America and 0.5% in Asia and Africa. Many of the strategic suppliers' production facilities located in Asia and Latin America are part of large multinational corporations based in Europe and the US. This is a conscious choice by Essity and reduces the social and ethical risks within the supply chain.

Global and regional strategic suppliers of raw materials and finished products represent about 85% (76; 61) of Essity's procurement spend. 19% (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 or the result of Essity's regular risk assessments. Sedex is an online database that enables suppliers to share information with their customers on their status in areas such as labor conditions, environment, business ethics and health and safety. At the end of 2019, Essity had a total of 929 (694; 481) suppliers that share data via Sedex.

H8. FIBER SOURCING

Essity's target is that all wood-based fresh fiber in the company's products and packaging is to be FSC® or PEFC™ certified. All wood-based fresh fiber must fulfill the FSC Controlled Wood standard, as a minimum, to be eligible for purchasing. Target fulfillment for certified wood-based fresh fiber in 2019 was 79% (76; 63). 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

Essity is a global purchaser of both fresh fiber and recovered fiber. Renewable raw materials (wood-based fresh fiber and recycled fiber) account for the largest share of the total volume of material in Essity's products.

In 2019, Essity purchased 3.3 million tons of wood-based fresh fiber and 2.3 million tons of recycled fiber. Wood-based fresh fiber mainly comprises pulp, 98%, and the remainder comprises packaging, externally sourced mother reels and products manufactured by third parties. Of the 2.3 million tons of recycled fiber sourced, 92% is used in tissue manufacturing. The remainder consists of recycled fiber, which is found in sourced packaging material and sourced mother reels.

Recycled fiber

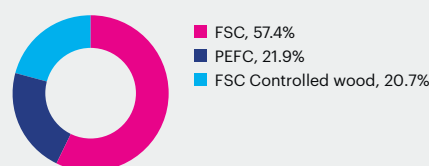
The proportion of recycled fiber in Essity's products varies between regions due to differences in quality, user preferences and fiber supply and demand. The North American operations use 98% (97; 94) recycled fiber, while the proportion of recycled fiber in Latin America is 68% (77; 68) and in Europe 40% (38; 33).

Results of audit of pulp suppliers

The eight largest pulp suppliers to Essity's wholly owned companies represent 80% the volume sourced. Essity audits all of its pulp suppliers to verify compliance with the company's sourcing policy for wood-based fresh fiber. In addition to this policy, 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 2019 showed that they comply with the abovementioned policy and Supplier Standard.

During 2019, Essity's personnel visited 5 (10; 5) supplier facilities to assess compliance with the company's policy. 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.

Fresh fiber consumption 2019



H9. ENERGY AND EMISSIONS TO AIR/ SCIENCE BASED TARGETS

Energy utilization

Energy use calculations include purchased energy, use of fuel and 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. The energy generated is used in production. The surplus heat created is mainly used by Essity. A minor share is sold externally.

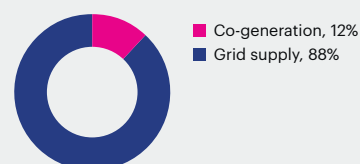
ESAVE

In 2010, Essity adopted a target for ESAVE: to reduce energy consumption per ton of product produced by 14% by 2020. During 2019, energy consumption rose 0.6% (+1.4; -0.4). The accumulated energy savings in the 2010–2019 period amounts to 7.4%.

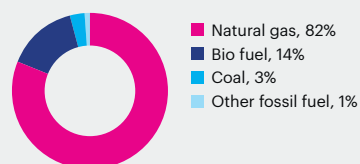
The EU Emissions Trading Scheme (EU ETS)

Essity had 24 production facilities included under the EU ETS in 2019. 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 2019 was about EUR 24.8 (15.9; 15.8) per ton and Essity purchased 240,000 (240,000; 240,000) emission rights.

Electricity consumption 2019



Distribution of fuel consumption 2019



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

Emissions

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

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, production waste and waste from used products.

Science Based Targets

Essity's new targets to reduce greenhouse gas emissions were approved by the Science Based Targets initiative in 2018. In terms of energy consumption within the company and purchased electricity (Scope 1 and 2), Essity has undertaken to reduce greenhouse gas emission by 25% by 2030 compared with 2016. The target applies to wholly owned companies. The outcome for 2019 was -5% (-5) for Scope 1 and 2.

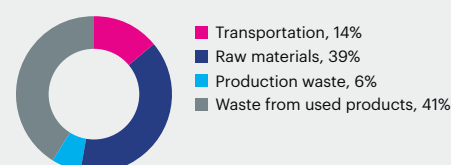
Essity has, moreover, undertaken to reduce greenhouse gas emissions from the most important purchased raw materials, transport, waste arising from operations and handling at the end of the life cycle for sold products (Scope 3) by 18% by 2030 compared with 2016. The outcome for 2018 was -3% for Scope 3. Emissions are calculated using data from the company's value chain and Essity therefore presents data from 2018.

Science Based Targets

		2019	2018	2017	2016
Scope 1, CO ₂ e	ktons	1,451	1,443	1,460	1,475
Scope 2, CO ₂ e ¹⁾	ktons	1,336	1,338	1,437	1,456
Scope 3, CO ₂ e	ktons	-	3,292	-	-

¹⁾ Based on country and region-specific emission factors. The market-based Scope 2 result is 1,331 ktons CO₂e.

Scope 3 emissions in 2018 by category



Energy and emissions to air

		Essity						Group companies with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care			2019	2018	2017
		2019	2018	2017	2019	2018	2017	2019	2018	2017			
Production	ktons	2,927	2,969	3,063	582	581	579	288	317	332	3,797	3,867	3,974
Energy utilization													
Purchased electricity	GWh	3,485	3,560	3,593	471	461	451	291	276	275	4,247	4,297	4,319
Heating/steam													
Purchased heating/steam	TJ	870	901	687	55	3	13	0	0	0	925	904	700
Fuels													
Biofuel	TJ	4,245	4,626	4,414	8	16	25	0	0	0	4,253	4,642	4,439
Fossil fuel	TJ	24,756	25,306	25,515	375	389	428	1,284	1,255	1,222	26,415	26,950	27,165
Total fuels	TJ	29,001	29,932	29,929	383	405	453	1,284	1,255	1,222	30,668	31,592	31,604
Total energy	GWh	11,783	12,125	12,097	593	574	580	648	625	615	13,024	13,324	13,292
Energy intensity (specific energy used)	GWh/ktons	4.0	4.1	3.9	1.0	0.99	1.00	2.25	2.0	1.8	3.4	3.4	3.3
GHG emissions													
Scope 1, CO ₂ e	ktons	1,430	1,419	1,433	22	24	27	79	75	73	1,531	1,518	1,533
Scope 2, CO ₂ e	ktons	1,148	1,159	1,256	188	179	181	97	92	86	1,433	1,430	1,523
Carbon intensity (Scope 1 & 2)	ktons/ktons	0.88	0.87	0.88	0.36	0.35	0.36	0.61	0.53	0.48	0.78	0.76	0.77

H9. ENERGY AND AIR EMISSIONS/SCIENCE BASED TARGETS, CONT.

Other air emissions

Other air emissions from use of fuel in production facilities include nitrogen oxides and sulphur oxides (NOx and SOx).

Air emissions

		Essity						Group companies with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
NOx as NO ₂	tons	1,545	1,758	1,827	0	17	21	27	23	24	1,572	1,798	1,872
SOx	tons	563	664	775	0	0	0	23	13	14	586	677	789
Dust	tons	123	116	122	0	0	0	5	5	5	128	121	127
CO ₂ biogenic	ktons	510	474	459	2	0	0	0	0	0	512	474	459

H10. 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 2019, levels of suspended solids decreased 25.8% (18.5; 19.7), volumes of effluent water by 1.9% (2.9; 4.7) and the amount of organic content (BOD) by 28.5% (25.0; 25.4).

Usage and discharge of water

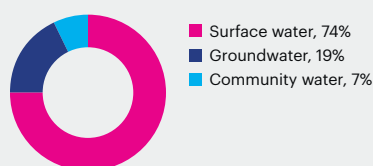
Essity's reporting of water usage states totals for surface water, groundwater and municipal water systems. Most of Essity's water is used to transport fibers during production processes. The remainder is mainly used as cooling water. 74% (75; 74) of the water used is drawn from surface sources. Essity's effluent water is divided into cooling water and process water. Cooling water has simply been heated and is not contaminated in any way. Process water is treated using mechanical and biological treatment systems.

The emissions to water stated in the tables comprise COD, BOD, suspended solids, AOX, P and N.

Six 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 2019, distributed between 36% from surface sources, 35% from groundwater and the remainder from recycled water from municipal water systems.

Any environmental incidents are registered in a central incident-reporting system. In 2019, a small number of incidents relating to temporary exceedances of permitted limit values for waste water were registered. No incident was of such a magnitude that it posed a threat to an emissions permit.

Water extraction 2019



Water

		Essity						Group companies with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Water													
Water extraction	mm ³	101	100	101	0.8	0.8	0.3	3	3	3	105	103	104
Discharges of water	mm ³	94	93	93	0	0	0	3	2	2	97	95	95
Water consumption ¹⁾	mm ³	6.9	6.7	7.8	0.8	0.8	0.3	0.7	0.8	0.9	8.4	8.3	9.0
Water emissions													
COD	tons	5,970	6,316	6,620	0	0	0	739	733	900	6,709	7,049	7,520
BOD	tons	609	673	654	0	0	0	199	185	229	808	858	883
Suspended solids	tons	714	815	827	0	0	0	193	186	242	907	1,001	1,069
AOX	tons	3	3	5	0	0	0	0	0	0	3	3	5
P	tons	37	44	38	0	0	0	1	0	0	38	44	38
N	tons	186	198	235	0	0	0	1	1	3	187	199	238

¹⁾ Water consumption is water extraction less discharged water.

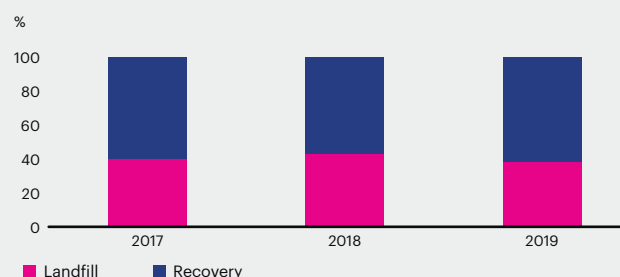
H11. WASTE

Essity's target is that all production waste will be subject to material and energy recovery by 2030. In 2019, Essity's production waste amounted to a total of 1.68 (1.65; 1.67) 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. Recycled waste can be used as raw materials for other industries, such as the cement, brick-making and construction industries. Waste can also be used for energy extraction. Waste that cannot be recovered, is sent to landfill or composted. In 2019, 63% (60; 62) of Essity's waste was recovered.

By reducing the amount of production waste sent to landfill and instead recycling the waste or extracting energy from it, greenhouse gas emissions can be reduced, thereby helping Essity to achieve its Science Based Targets (Scope 3).

A small proportion (1% or 16,000 tons) is hazardous waste, which is primarily waste oil, but also includes organic solvents, batteries and strip lights.

Waste



Solid waste

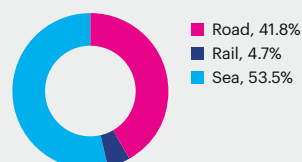
		Essity						Group companies with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care			2019	2018	2017
		2019	2018	2017	2019	2018	2017	2019	2018	2017			
Landfill and incineration	tons	562,383	654,295	621,047	4,690	4,711	5,599	6,081	8,104	7,305	573,154	667,110	633,951
Recycling	tons	924,422	819,019	882,185	53,919	56,143	55,887	124,705	111,548	102,392	1,103,046	986,710	1,040,464
Total waste	tons	1,486,805	1,473,314	1,503,232	58,609	60,854	61,486	130,786	119,652	109,697	1,676,200	1,653,820	1,674,415

H12. TRANSPORT

Raw materials are transported to Essity's production plants and finished products are delivered to Essity's customers. Essity uses external suppliers for most of its transportation needs. Essity's total transportation amounted to 13 (14; 13) billion ton-kilometers in 2019. 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 2019 amounted to 463,000 (480,000; 517,000) tons.

Emissions from transportation is included in Essity's report of Scope 3 objectives in Science Based Targets.

Distribution of transport usage 2019



H13. EMPLOYEES

The table below shows the average number of employees and employee turnover.

	2019	2018	2017
Personnel data			
Average number of employees	45,980	47,222	46,385
full-time (of whom women), % ¹⁾	96 (30)	–	–
part-time (of whom women), % ¹⁾	4 (75)	–	–
on parental leave (men/women), % ¹⁾	1/1	–	–
Number of employees who joined the Group during the period	5,516	6,945	13,585
of whom, through acquisitions	23	36	5,518
Number of employees who left the Group during the period	6,485	7,815	7,321
due to divestments	109	0	21
due to restructuring	345	544	584
due to retirement	524	383	418
Personnel turnover, excl. restructuring, retirement, %	12	15	14
Personnel turnover, excl. restructuring, retirements, temporary employees, %	10	13	–
of whom in wholly owned companies, %	5	5	–

¹⁾ Applies to wholly owned companies.

Diversity and equal opportunities

The table below shows diversity and equality in terms of gender, age and nationality.

	2019	2018	2017
Gender			
Women of total number of employees, %	34	34	34
Women, of total number of Board members and Executive Management Team, %	39	39	42
Women, of total number of Board members (excl. members appointed by the employees) and Executive Management Team, %	45	45	45
Women in the Executive Management Team, %	25	27	36
Female managers, senior management ¹⁾ , %	33	26	27
Female managers, senior and middle management ¹⁾ , %	28	27	23
Age			
Employees under 20 years of age, %	1	1	1
21–30 years, %	22	21	22
31–40 years, %	32	33	33
41–50 years, %	25	25	25
51–60 years, %	17	17	16
Employees over 60 years of age, %	3	3	3
Nationalities			
Total number of nationalities	112	105	102
Nationalities, Executive Management Team	6	6	5
Nationalities, senior management ¹⁾	20	17	18
Nationalities, senior and middle management ¹⁾	39	39	36

¹⁾ Senior management comprises the highest level of management below the Executive Management Team. The number varies over time due to organizational changes and consists of 110–150 managers. Middle management consists of 750–1,000 managers.

Salary

The table below shows a pay comparison between women and men in the countries where Essity has most employees.

	Average combined salary ¹⁾		
	2019	2018	2017
Women's median wage compared with men's (men's wage 100%), %	92	94	95
Women's median wage compared with men's in senior and middle management (men's wage 100%), %	86	83	83

¹⁾ Applies to salaries from Sweden, Germany, France, the US and Mexico. Salaries for the President, Executive Vice President and CFO are excluded.

Individual development

In 2019, 83% (84; 86) of Essity's employees participated in performance reviews.

The development of employees takes place through a combination of learning from experience, learning from others and through training programs. During 2019, more than 600 training courses were held in leadership as well as functional training. More than 50,000 individual training sessions took place. The training courses consist of traditional classroom programs and e-learning courses along with self-training material.

In 2019, approximately 2,300 managers took part in one of our Group-wide leadership programs, which are available all over the world on a continuous basis. The programs focus on the needs of new managers and on further development and in-depth leadership training for more experienced managers.

The Group offers training in the form of training programs tailored for various functions in the company to continuously strengthen expertise in the market, innovation and sustainability, digitalization as well as manufacturing operations.

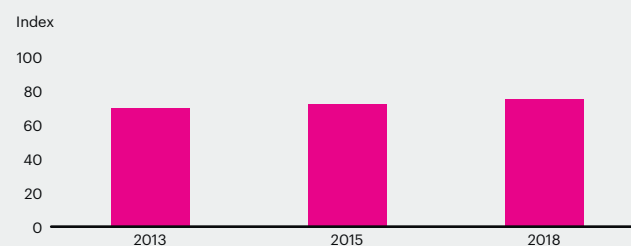
The average number of training hours per employee was 13 (15; 17) in 2019. On average, this involved 30 minutes of training in the new Code of Conduct, which includes human rights.

Investments in skills-enhancement activities	2019	2018	2017
total, SEKm	117	141	152
per employee, SEK	2,500	3,000	3,300
Value added per employee	800	661	666
Return on human capital	1.61	1.50	1.59
Proportion of university graduates, %	23	23	22

All Employee Survey

Essity regularly carries out employee surveys. The latest took place in 2018 using a global tool that comprised 31 statements in five areas. These reflected Essity's focus on hygiene and health and the company's Beliefs & Behaviors values. The response rate was 80% (88% in 2015). Essity's total index was 75 (72 in 2015) on a scale of 1–100, where 100 indicates maximum employee satisfaction. Based on the outcome of the employee survey, some 4,000 activities were defined and implemented in the company in 2019.

Essity's total index



Employee relations

Union involvement varies among Essity's countries of operation, but on average 68% (63; 61) of Essity's employees are covered by collective agreements. There are health and safety committees on which representatives of about 85% (82; 86) of employees serve. The notice period in connection with organizational changes in the Group varies, but averages about five weeks.

H14. HEALTH AND SAFETY

Essity's Group target is to decrease the accident frequency rate by 50% in the 2014–2020 period. In 2019, the accident frequency rate declined by 13% year-on-year to 3.3 (3.8; 3.8) and 47% 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. Feedback is then provided together with practical improvement proposals. The tool was introduced at just over ten facilities in Latin America 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

	2019	2018	2017
Lost Time Accidents, LTA	177	214	210
Contractor Lost Time Accidents, CLTA	34	50	34
Days Lost due to Accidents, DLA	4,615	5,230	4,877
Accident Severity Rate, ASR	26.1	24.4	23.2
Accident Frequency Rate, FR (LTA/1,000,000 WH)	3.3	3.8	3.8
Incident Rate, IR (LTA/200,000 WH)	0.7	0.8	0.8
Fatalities (employees)	0	0	0
Number of zero-accident sites	29	27	26
Number of sites included in reporting	86	85	85

Sickness absence

Using information supplied by 15,195 (15,884; 15,962) employees, average sickness absence in 2019 was 5.20% (4.92; 4.86).

H15. CERTIFICATIONS

Reliable management systems, which are certified by a third party, play an important role in Essity's sustainability work. 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 and/or EMAS. ISO 9001 is the most important quality management system used by Essity. Essity implements the international standard OHSAS 18001 (Occupational Health and Safety Assessment Series) to ensure the use of uniform processes 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		
		2019	2018	2017	2019	2018	2017
ISO 9001	%	70	73	73	97	97	97
ISO 14001	%	79	80	85	88	86	85
OHSAS 18001	%	77	68	67	97	90	89

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

PC16. PROPOSED DISPOSITION OF EARNINGS**Annual accounts 2019**

Disposition of earnings Essity Aktiebolag (publ)	
Non-restricted equity in the Parent company:	
retained earnings	83,820,218,260
net profit for the year	4,121,499,205
Total	87,941,717,465
The Board of Directors and the President propose:	
to be distributed to shareholders, a dividend of SEK 6.25 per share	4,389,640,556
to be carried forward	83,552,076,909 ¹⁾
Total	87,941,717,465

¹⁾ The company's equity would have been SEK 161,228,783 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 consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the EU and that disclosures herein give a true and fair view of the Group's position and results of operations. The Parent company's annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent company's position and results of operations. The statutory Board of Directors' Report provides a fair review of the Parent company's and Group's operations, position and results of operations and describes material risks and uncertainties facing the Parent company and the companies included in the Group.

Stockholm, February 20, 2020

Ewa Björling
Board member

Pär Boman
Chairman of the Board

Maija-Liisa Friman
Board member

Annemarie Gardshol
Board member

Magnus Groth
President,
CEO and
Board member

Susanna Naumanen
Board member,
appointed by the employees

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 20, 2020
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

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 40–55 and 114–121 for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 6–8 and 22–126 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 2019 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 2019 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 40–55 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 (including trademarks) with an indefinite useful life as of 31 December 2019 amounted to 48.2 billion SEK. The Company performs annual impairment tests as well as whenever impairment indicators have been identified. The recoverable amount for each cash-generating unit is determined as the value in use, which is calculated based on the discounted present value of future cash flows. Key assumptions in these calculations include future growth rates, gross profit development and the discount rate applied and are presented in Note D1 ("Intangible assets"). An impairment test is a complex process and contains a high degree of judgment regarding future cash flows and other assumptions, not least because it is based on estimates of how the company's business will be affected by future market developments and by other economic events. In addition, the underlying calculations are in themselves complex. Therefore, we have assessed valuation of goodwill and other intangibles assets with an indefinite useful life to be a key audit matter.	In our audit we have evaluated and reviewed key assumptions, the application of recognized valuation practices, discount rate (referred to as WACC – "Weighted Average Cost of Capital") and other source data that the company has applied. Our evaluation has included comparing to external data sources, such as forecasts of inflation or assessment of future market growth and by evaluating the sensitivity in the company's valuation model. We have specifically focused on the sensitivity in the calculations and have made an independent evaluation of whether there is a risk that reasonably probable events would give rise to a situation where the value in use would be lower than the carrying amount. In order to assess the company's historical precision in its estimates and assessments we have also evaluated the company's historical estimates with actual amounts that were subsequently reported. We have as appropriate included valuation experts in the team performing our review. Finally, we have evaluated if disclosures provided in Note D1 ("Intangible assets") in the company's notes are appropriate, specifically with regards to the disclosure of which of the stated assumptions that are most sensitive in calculating the value in use and the sensitivity analysis for those key assumptions.

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 estimation and assessment. Incentives related to sales are reported as reduction of the company's revenue. We have noted that bonuses, rebates and other adjustments of sales prices in some cases can be material. Incentives can for example be structured as a percentage reduction of sales volumes, 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 on a sample basis reviewed the accrued costs related sales incentives (bonuses and rebates) to customers as of 31 December 2019 which amounted to 6.0 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2018. Our audit has also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2019. We have also reviewed a sample of 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 2019 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 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, 9-21 and 127-133. 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 2019 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 examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

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

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 34–45 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 4, 2019 and has been the company's auditor since May 27, 2016.

Stockholm, February 20, 2020
Ernst & Young AB

Hamish Mabon
Auktoriserad revisor

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 2019 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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Specific Standard Disclosures

GRI Standard		Description	Page	Comment/Omission	Topic in Essity's materiality analysis
ECONOMIC					
Indirect Economic Impacts GRI 203: Indirect Economic Impacts 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	43		Risk management
	203-2	Significant indirect economic impacts	19–21, 43–45		
Anti-corruption GRI 205: Anti-corruption 2016	103-1/2/3 ¹⁾	DMA	42		Business ethics Transparency
	205-1	Operations assessed for risks related to corruption and the transparency-significant risks identified	114		
	205-3	Actions taken in response to confirmed incidents of corruption	114		
Anti-competitive Behavior GRI 206: Anti-competitive Behavior 2016	103-1/2/3 ¹⁾	DMA	42		Business ethics Transparency
	206-1	Anti-trust and monopoly court cases	114		
ENVIRONMENT					
Energy GRI 302: Energy 2016	103-1/2/3 ¹⁾	DMA	20, 43–44		Climate change, Waste/circularity and plastics
	302-1	Energy consumption within the organization	117–118		
	302-4	Reduction of energy consumption	117–118		
Water GRI 303: Water 2016	103-1/2/3 ¹⁾	DMA	44		Water
	303-1	Total water withdrawal by source	118		
Emissions GRI 305: Emissions 2016	103-1/2/3 ¹⁾	DMA	43–44		Climate change, Water, Waste/circularity and plastics, Fiber sourcing
	305-1	Direct greenhouse gas (GHG) emissions (Scope 1)	117–118		
	305-2	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	117–118		
	305-3	Other indirect greenhouse gas (GHG) emissions (Scope 3)	116		
	305-4	Greenhouse gas (GHG) emissions intensity	117		
	305-7	NO _x , SO _x , and other significant air emissions	118		
Effluents and Waste GRI 306: Effluents and Waste 2016	103-1/2/3 ¹⁾	DMA	42–43		Water, Waste/circularity and plastics
	306-1	Total water discharge by quality and destination	118		
	306-2	Total weight of waste by type and disposal method	119		
SOCIAL PERFORMANCE INDICATORS					
Employment GRI 401: Employment 2016	103-1/2/3 ¹⁾	DMA	41–42, 44–45		Human capital
	401-1	New employee hires and employee turnover	120		
Labor/Management Relations GRI 402: Labor/Management Relations 2016	103-1/2/3 ¹⁾	DMA	41–42, 44–45		Human capital
	402-1	Minimum notice periods regarding operational changes	120		
Health and safety GRI 403: Occupational Health and Safety 2016	103-1/2/3 ¹⁾	DMA	41–42, 121		Health and safety
	403-1	Percentage of total workforce represented in formal joint management-worker health and safety committees	120		
	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	41–42, 44–45, 120		Human capital
	404-3	Percentage of employees receiving regular performance and career development reviews	120		
Diversity and equal opportunities GRI 405: Diversity and Equal Opportunity 2016	103-1/2/3 ¹⁾	DMA	41–42, 44–45		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	41–42, 44–45		Business ethics Transparency
	406-1	Actions taken in incidents of discrimination	114		
Freedom of Association and Collective Bargaining GRI 407: Freedom of Association and Collective Bargaining 2016	103-1/2/3 ¹⁾	DMA	40–41, 44–45		Business ethics Transparency
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		No Essity sites were identified as high-risk sites by Sedex.	
Child Labor GRI 408: Child Labor 2016	103-1/2/3 ¹⁾	DMA	41–42		Business ethics Transparency
	408-1	Measures taken to eliminate child labor in risk areas	114	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	41–42		Business ethics Transparency
	409-1	Measures taken to eliminate forced or compulsory labor in risk areas	114	No Essity sites were identified as high-risk sites by Sedex.	
Human rights GRI 412: Human Rights Assessment 2016	103–1/2/3 ¹⁾	DMA	41–42		Human rights Business ethics Transparency
	412-2	Employee training on human rights	114	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	41–44		Human rights Business ethics Transparency
	414-2	Significant potential and actual negative impacts in the supply chain and actions taken	116		
Marketing and Labeling GRI 417: Marketing and Labeling 2016	103-1/2/3 ¹⁾	DMA	15		Customer and consumer satisfaction, Safe products
	417-1	Product information required by procedures	43		

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.

Till Essity Aktiebolag (publ), org.nr 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 2019. The scope of the Sustainability Report has been defined 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, 20 February 2020
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Outi Alestalo
Expert member of FAR