

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

**Financial statements,
Parent company 113**

Parent company income statement
Parent company statement of
comprehensive income
Parent company cash flow statement
Parent company balance sheet
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Consolidated income statement ^{IS}

	Note	2020		2019		2018	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Net sales	B1, B2	121,752	11,626	128,975	12,193	118,500	11,565
Cost of goods sold	B3	-82,132	-7,843	-90,876	-8,591	-85,058	-8,301
Items affecting comparability – cost of goods sold	B2, B3	-181	-17	-243	-23	-1,437	-140
Gross profit		39,439	3,766	37,856	3,579	32,005	3,124
Sales, general and administration	B3	-22,088	-2,109	-22,319	-2,110	-20,570	-2,008
Items affecting comparability – sales, general and administration	B2, B3	122	11	-470	-45	62	6
Share of profits of associated companies and joint ventures	B3	94	9	60	6	63	6
Operating profit before amortization of acquisition-related intangible assets (EBITA)		17,567	1,677	15,127	1,430	11,560	1,128
Amortization of acquisition-related intangible assets	B3	-809	-77	-778	-73	-732	-71
Items affecting comparability – acquisition-related intangible assets	B2, B3	-	-	-	-	-69	-7
Operating profit		16,758	1,600	14,349	1,357	10,759	1,050
Financial income	E7	108	10	106	10	91	9
Financial expenses	E7	-1,066	-101	-1,415	-134	-1,248	-122
Profit before tax		15,800	1,509	13,040	1,233	9,602	937
Income taxes	B5	-4,053	-387	-2,828	-268	-1,050	-102
Profit for the period		11,747	1,122	10,212	965	8,552	835
Earnings attributable to:							
Owners of the Parent company		10,228	977	9,216	871	7,886	770
Non-controlling interests		1,519	145	996	94	666	65
Earnings per share – owners of the Parent company							
Earnings per share before and after dilution effects, SEK		14.56	1.4	13.12	1.2	11.23	1.1
Dividend per share, SEK		6.75 ²⁾		6.25		5.75	
Average number of shares before and after dilution, million		702.3		702.3		702.3	

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.47 (10.58; 10.25) was used.

²⁾ Board proposal.

Consolidated statement of comprehensive income ^{CI}

SEKm	2020	2019	2018
IS Profit for the period	11,747	10,212	8,552
Other comprehensive income for the period			
Items that will not be reclassified to the income statement			
Actuarial gains/losses on defined benefit pension plans	-202	482	-1,036
Fair value through other comprehensive income	3	6	-5
Income tax attributable to components in other comprehensive income	279	52	176
	80	540	-865
Items that have been or may be reclassified subsequently to the income statement			
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	-9	-725	471
Transferred to profit or loss for the period	473	112	-378
Translation differences in foreign operations	-8,092	2,095	2,080
Gains/losses from hedges of net investments in foreign operations	1,504	-168	-122
Other comprehensive income from associated companies	-20	-14	23
Income tax attributable to components in other comprehensive income	-415	179	4
	-6,559	1,479	2,078
Other comprehensive income for the period, net of tax	-6,479	2,019	1,213
Total comprehensive income for the period	5,268	12,231	9,765
Total comprehensive income attributable to:			
Owners of the Parent company	4,588	11,006	8,893
Non-controlling interests	680	1,225	872

By operating segment SEKm	Net sales			Adjusted EBITA ¹⁾		
	2020	2019	2018	2020	2019	2018
Personal Care	46,095	48,340	45,342	7,161	6,746	6,354
Consumer Tissue	50,221	49,904	45,125	8,045	5,321	3,331
Professional Hygiene	25,418	30,731	28,017	3,317	4,463	3,841
Other	18	0	16	-897	-690	-591
Total	121,752	128,975	118,500	17,626	15,840	12,935

¹⁾ Excluding items affecting comparability.

Consolidated statement of change in equity EQ

SEKm	Share capital	TE8:1 Reserves	Retained earnings	Equity attributable to owners of the Parent company	Non-controlling interests	Total equity
Value, January 1, 2020	2,350	6,284	45,491	54,125	8,676	62,801
IS Profit for the period			10,228	10,228	1,519	11,747
Other comprehensive income for the period						
Items that will not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans ¹⁾			-203	-203	1	-202
Fair value through other comprehensive income		3		3		3
TE8:2 Income tax attributable to components in other comprehensive income		-1	280	279	-	279
		2	77	79	1	80
Items that have been or may be reclassified subsequently to the income statement						
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		-9		-9		-9
Transferred to profit or loss for the period		473		473		473
Translation differences in foreign operations		-7,252		-7,252	-840	-8,092
Gains/losses from hedges of net investments in foreign operations		1,504		1,504		1,504
Other comprehensive income from associated companies			-20	-20		-20
TE8:2 Income tax attributable to components in other comprehensive income		-419	4	-415		-415
Other comprehensive income for the period, net of tax		-5,701	61	-5,640	-839	-6,479
CI Total comprehensive income for the period		-5,701	10,289	4,588	680	5,268
Private placement to non-controlling interests			33	33	31	64
Divestment of non-controlling interests				-	57	57
Acquisition of non-controlling interests			-1	-1	-1	-2
Transferred to cost of hedged investments		-2		-2		-2
Revaluation effect upon acquisition of non-controlling interests			-1	-1		-1
CF OCF Dividend, SEK 6.25 per share ²⁾			-4,390	-4,390	-453	-4,843
BS Value, December 31	2,350	581	51,421	54,352	8,990	63,342
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 will not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans ¹⁾			479	479	3	482
Fair value through other 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 ³⁾			-4,038	-4,038	-336	-4,374
BS Value, December 31	2,350	6,284	45,491	54,125	8,676	62,801

¹⁾ Including payroll tax.

²⁾ Dividend of SEK 6.25 per share pertains to owners of the Parent company. For the 2020 fiscal year, the Board of Directors has decided to propose a dividend of SEK 6.75 per share to the Annual General Meeting.

³⁾ Dividend of SEK 5.75 per share pertains to owners of the Parent company.

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

¹⁾ Including payroll tax.

²⁾ Dividend of SEK 5.75 per share pertains to owners of the Parent company.

For further information, see Note E8 Equity on page 103.

Consolidated operating cash flow statement, supplementary disclosure OCF

Note	2020		2019		2018	
	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
IS Net sales	121,752	11,626	128,975	12,193	118,500	11,565
Operating expenses	-97,555	-9,315	-106,416	-10,060	-100,165	-9,776
Operating surplus	24,197	2,311	22,559	2,133	18,335	1,789
Adjustment for non-cash items	456	43	373	35	235	23
Operating cash surplus	24,653	2,354	22,932	2,168	18,570	1,812
Change in						
Inventories	-2,207	-211	-194	-18	-1,017	-99
Operating receivables	53	5	-1,949	-184	-344	-34
Operating liabilities	1,344	128	2,502	237	390	38
Change in working capital	-810	-78	359	35	-971	-95
Investments in non-current assets, net	-6,439	-615	-5,707	-540	-6,781	-660
Restructuring costs, etc.	-977	-93	-1,494	-141	-918	-90
Operating cash flow before investments in operating assets through leases	16,427	1,568	16,090	1,522	9,900	967
Investments in operating assets through leases	-409	-39	-451	-43	-	-
Operating cash flow	16,018	1,529	15,639	1,479	9,900	967
Financial items E7	-958	-91	-1,309	-124	-1,157	-113
Income taxes paid B5	-3,917	-374	-1,130	-107	-2,466	-241
Other	32	3	8	1	86	8
Cash flow from current operations	11,175	1,067	13,208	1,249	6,363	621
Acquisitions of Group companies and other operations F6	-747	-71	-143	-13	-694	-68
Divestments of Group companies and other operations F6	367	35	220	21	68	7
Cash flow from acquisitions and divestments	-380	-36	77	8	-626	-61
Cash flow before transactions with shareholders	10,795	1,031	13,285	1,257	5,737	560
Private placement to non-controlling interests	64	6	4	0	5	0
Dividend to non-controlling interests E8	-423	-40	-336	-32	-397	-39
Dividend E8	-4,390	-419	-4,038	-382	-4,038	-394
Net cash flow	6,046	578	8,915	843	1,307	127
	2020		2019		2018	
	SEKm	EURm	SEKm	EURm	SEKm	EURm
Net debt						
Net debt, January 1²⁾	-50,940	-4,886	-54,404	-5,294	-52,467	-5,332
Changed opening balance for net debt due to IFRS 16 Leases ¹⁾	-	-	-3,786	-358	-	-
Net cash flow ¹⁾	6,046	578	8,915	843	1,307	127
Remeasurements to equity ¹⁾	-199	-19	488	46	-1,041	-102
Investments in non-operating assets through leases ¹⁾	-399	-38	-434	-41	-	-
Translation differences	2,804	108	-1,719	-82	-2,203	13
Net debt, December 31²⁾	-42,688	-4,257	-50,940	-4,886	-54,404	-5,294

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.47 (10.58; 10.25) was used.

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.03 (10.43; 10.28) was used for net debt.

Consolidated cash flow statement **CF**

	Note	2020		2019		2018	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Operating activities							
IS Operating profit		16,758	1,600	14,349	1,357	10,759	1,050
T:1 Adjustment for non-cash items		7,812	746	8,193	774	7,562	738
		24,570	2,346	22,542	2,131	18,321	1,788
Interest paid		-872	-83	-1,010	-95	-818	-80
Interest received		101	10	105	10	85	8
Other financial items		-205	-20	-420	-40	-408	-39
Change in liabilities relating to restructuring programs, etc.		-1,048	-100	-1,095	-104	-583	-57
Paid tax	B5	-3,917	-374	-1,130	-107	-2,466	-241
Cash flow from operating activities before changes in working capital		18,629	1,779	18,992	1,795	14,131	1,379
Cash flow from changes in working capital							
Change in							
Inventories		-2,207	-211	-194	-18	-1,017	-99
Operating receivables		53	5	-1,949	-184	-344	-34
Operating liabilities		1,344	128	2,502	237	390	38
Cash flow from operating activities		17,819	1,701	19,351	1,830	13,160	1,284
Investing activities							
Acquisitions of Group companies and other operations	F6	-668	-64	-143	-14	-461	-45
Divestments of Group companies and other operations	F6	65	6	5	0	68	7
T:2 Investments in intangible assets and property, plant and equipment		-6,587	-629	-5,908	-559	-6,882	-672
T:2 Paid interest capitalized in intangible assets and property, plant and equipment		-20	-2	-39	-4	-24	-2
Sale of property, plant and equipment		169	16	239	23	134	13
Loans granted to external parties		-54	-5	-62	-6	-	-
Repayment of loans from external parties		-	-	-	-	178	17
Cash flow from investing activities		-7,095	-678	-5,908	-560	-6,987	-682
Financing activities							
Private placement to non-controlling interests		64	6	4	0	5	0
Proceeds from borrowings		6,474	618	2,448	231	4,386	428
Repayment of borrowings		-10,100	-964	-11,708	-1,107	-7,295	-711
Dividend to non-controlling interests	E8	-423	-40	-336	-32	-397	-39
Dividend	E8	-4,390	-419	-4,038	-382	-4,038	-394
Cash flow from financing activities		-8,375	-799	-13,630	-1,290	-7,339	-716
Cash flow for the period		2,349	224	-187	-20	-1,166	-114
Cash and cash equivalents, January 1 ²⁾		2,928	281	3,008	293	4,107	418
Translation differences in cash and cash equivalents		-295	-8	107	8	67	-11
Cash and cash equivalents, December 31 ²⁾	E2	4,982	497	2,928	281	3,008	293

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.47 (10.58; 10.25) was used.

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.03 (10.43; 10.28) was used.

For information about the Group's liquidity reserve, refer to the Risk and risk management section on page 36.

T:1 Adjustment for non-cash items

SEKm	2020	2019	2018
Depreciation/amortization and impairment of non-current assets	7,671	7,529	6,708
Gain/loss on sale of assets	-44	24	35
Gain/loss on divestment and liquidation	-69	160	-69
Non-cash items relating to efficiency program	-19	128	669
Impact from settlement of pension liability	-187	-	-
Revaluation of previously owned shares upon acquisition	-	-	-225
Change in provision for ongoing competition case	-	-	95
Change in provision for tax of a non-recurring nature on non-current assets	-	-	-288
Impairment of participations in associated companies	-	-	278
Other	460	352	359
Total	7,812	8,193	7,562

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

SEKm	2020	2019	2018
Measures to raise the capacity level of operations (Strategic capital expenditures)	-2,675	-1,431	-2,424
Measures to uphold capacity level (Current capital expenditures)	-3,932	-4,516	-4,490
Investments through finance leases	-	-	8
Total	-6,607	-5,947	-6,906

Change in liabilities attributable to financing activities

SEKm	Value at January 1	Cash flow	Acquisitions/ divestments	Translation differences	Actuarial gains/ losses	Effect of IFRS 16 Leases	Other changes	Value at December 31
2020								
Non-current and current financial liabilities	52,062	-2,655	-205	-3,102	-	-	790 ¹⁾	46,890
Provisions for pensions including surplus in funded pension plans	3,025	-532	-	3	202	-	-187 ²⁾	2,511
Assets for hedging financial liabilities included in cash flow from financing activities	-948	-439	-	-	-	-	-	-1,387
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	54,139	-3,626	-205	-3,099	202	-	603	48,014
2019								
Non-current and current financial liabilities	54,327	-8,498	-214	1,793	-	3,786	868 ³⁾	52,062
Provisions for pensions including surplus in funded pension plans	4,141	-659	-1	26	-482	-	-	3,025
Assets for hedging financial liabilities included in cash flow from financing activities	-846	-103	-	1	-	-	-	-948
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	57,622	-9,260	-215	1,820	-482	3,786	868	54,139
2018								
Non-current and current financial liabilities	54,838	-2,913	231	2,145	-	-	26 ⁴⁾	54,327
Provisions for pensions including surplus in funded pension plans	3,393	-420	2	130	1,036	-	-	4,141
Assets for hedging financial liabilities included in cash flow from financing activities	-1,269	424	-	-1	-	-	-	-846
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	56,962	-2,909	233	2,274	1,036	-	26	57,622

¹⁾ Other changes 2020 relate to change in accrued interest SEK -18m, change in liability related to financial leases in accordance with IFRS 16 of SEK 808m, of which SEK 409m relates to operating assets and SEK 399m to non-operating assets.

²⁾ Other changes 2020 relate to the impact from settlement of pension liability SEK -187m.

³⁾ Other changes 2019 relate to change in accrued interest SEK -17m, change in liability related to financial leases in accordance with IFRS 16 of SEK 885m, of which SEK 451m relates to operating assets and SEK 434m to non-operating assets.

⁴⁾ Other changes 2018 relate to change in accrued interest of SEK 17m and an adjustment for a financial lease liability of SEK 9m.

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

SEKm	2020	2019	2018
Cash flow from operating activities			
Cash flow from operating activities	17,819	19,351	13,160
Adjustments			
Investments in non-current assets, net	-6,439	-5,707	-6,781
Accrued interest	18	17	-17
Investments in operating assets through leases	-409	-451	-
Impact from settlement of pension liability	187	-	-
Other	-1	-2	1
Cash flow from current operations according to consolidated operating cash flow statement	11,175	13,208	6,363
Cash flow from investing activities			
Cash flow from investing activities	-7,095	-5,908	-6,987
Adjustments			
Investments in non-current assets, net	6,439	5,707	6,781
Loans granted to external parties	54	62	-
Repayment of loans from external parties	-	-	-178
Net debt in acquired and divested companies	205	215	-234
Non-paid financial receivable upon divestment of Group companies	18	-	-
Investments through finance leases	-	-	-8
Other	-1	1	-
Cash flow from acquisitions and divestments according to consolidated operating cash flow statement	-380	77	-626
Cash flow for the period			
Cash flow for the period	2,349	-187	-1,166
Adjustments			
Repayment of borrowings	10,100	11,708	7,295
Proceeds from borrowings	-6,474	-2,448	-4,386
Loans granted to external parties	54	62	-
Repayment of loans from external parties	-	-	-178
Net debt in acquired and divested operations	205	215	-234
Non-paid financial receivable upon divestment of Group companies	18	-	-
Investments through finance leases	-	-	-8
Investments in operating assets through leases	-409	-451	-
Accrued interest	18	17	-17
Impact from settlement of pension liability	187	-	-
Other	-2	-1	1
Net cash flow according to consolidated operating cash flow statement	6,046	8,915	1,307

Consolidated balance sheet ^{BS}

		2020			2019		2018	
	Note	SEKm	EURm ¹⁾		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
ASSETS								
Non-current assets								
Goodwill	D1	32,324	3,223		34,581	3,316	33,553	3,264
Other intangible assets	D1	18,574	1,852		21,182	2,031	21,475	2,089
Property, plant and equipment	D2	53,631	5,348		56,900	5,457	51,673	5,028
Participations in joint ventures and associated companies	F3	847	84		865	83	777	76
Shares and participations	F5	7	1		8	1	29	3
Surplus in funded pension plans	C4	2,817	281		2,841	273	1,117	109
Non-current financial assets	E2	738	74		694	67	634	62
Deferred tax assets	B5	1,823	182		2,539	244	2,158	210
Other non-current assets	B1	768	76		704	68	705	69
Total non-current assets		111,529	11,121		120,314	11,540	112,121	10,910
Current assets								
Inventories	D3	16,383	1,634		15,764	1,512	15,234	1,482
Trade receivables	E3	17,825	1,777		19,864	1,906	18,687	1,818
Current tax assets	B5	760	76		745	71	2,126	207
Other current receivables	D4	2,173	217		2,113	203	2,599	253
Current financial assets	E2	993	99		525	50	422	41
Non-current assets held for sale	G1	–	–		42	4	69	7
Cash and cash equivalents	E2	4,982	497		2,928	281	3,008	293
Total current assets		43,116	4,300		41,981	4,027	42,145	4,101
Total assets	B2	154,645	15,421		162,295	15,567	154,266	15,011
EQUITY AND LIABILITIES								
Equity								
Owners of the Parent company	E8							
Share capital		2,350	234		2,350	225	2,350	229
Reserves		581	58		6,284	603	5,003	487
Retained earnings		51,421	5,128		45,491	4,363	39,788	3,871
		54,352	5,420		54,125	5,191	47,141	4,587
Non-controlling interests		8,990	896		8,676	832	7,758	755
Total equity		63,342	6,316		62,801	6,023	54,899	5,342
Non-current liabilities								
Non-current financial liabilities	E4	38,202	3,810		43,079	4,131	43,500	4,233
Provisions for pensions	C4	5,328	531		5,866	563	5,258	512
Deferred tax liabilities	B5	6,150	613		6,545	628	7,272	707
Other non-current provisions	D6	445	44		541	52	1,694	165
Other non-current liabilities	D5	105	11		183	18	71	7
Total non-current liabilities		50,230	5,009		56,214	5,392	57,795	5,624
Current liabilities								
Current financial liabilities	E4	8,688	866		8,983	862	10,827	1,054
Trade payables		14,791	1,475		15,802	1,516	15,911	1,548
Current tax liabilities	B5	2,301	229		2,432	233	570	55
Current provisions	D6	748	75		1,065	102	1,472	143
Other current liabilities	D5	14,545	1,451		14,998	1,439	12,792	1,245
Total current liabilities		41,073	4,096		43,280	4,152	41,572	4,045
Total liabilities		91,303	9,105		99,494	9,544	99,367	9,669
Total equity and liabilities		154,645	15,421		162,295	15,567	154,266	15,011
Contingent liabilities and pledged assets, see Note G3 on page 112.								
Capital employed		106,030	10,573		113,741	10,910	109,303	10,635
Net debt		42,688	4,257		50,940	4,886	54,404	5,294

¹⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.03 (10.43; 10.28) was used.

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 below.

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
Txx	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, 2020. 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. Changes in assets and liabilities measured at fair value through profit or loss are recognized either in profit or loss or other comprehensive income.

In December 2018, the EU adopted a directive to complement the Transparency Directive entailing that listed companies in the EU whose securities are admitted to trading on a regulated market must issue a digital annual financial report in an electronic format called ESEF (European Single Electronic Format), which was developed by the European Securities and Markets Authority (ESMA). The regulation requires that the annual financial report be prepared in xHTML and consolidated financial statements prepared in accordance with IFRS must be marked up using XBRL tags.

Originally, the directive was to come into force for fiscal years beginning January 1, 2020 or later. However, on December 11, 2020, the EU approved an amendment that will be made to the Transparency Directive permitting the member states to postpone the introduction by one year. Accordingly, on January 21, 2021, the Swedish government decided to propose a legislative change that enabled deferral of the application of the requirements in the directive by one year. It is proposed that the legislative change come into force on March 15, 2021, but be applied from January 1, 2021.

Essity has chosen to defer the application of the ESEF directive by one year in accordance with the proposed legislative change.

New or amended accounting standards 2020

In this Annual and Sustainability Report, the Group applies the amended accounting standards that came into effect from January 1, 2020. The changes did not have any impact on the Group's financial statements and are not expected to have any material impact moving forward.

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. At present, the reform primarily impacts Essity's fair value hedges on loans. As a result of the reform, uncertainty regarding the measurement of effectiveness has been eliminated and these hedges are expected to remain effective in the future. For further information concerning derivatives and hedge accounting, see Note E6 Derivatives and hedge accounting on page 100.

New or amended accounting standards after 2020

A number of new and amended accounting standards have not yet come into effect and have not been applied in advance in the preparation of the Group's and the Parent company's financial statements. The Group intends to comply with these new and amended standards when they come into force. These standards and amendments to standards published by IASB are not expected to have any impact on the Group's or the Parent company's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform

The amendments address issues that may arise when an existing interest rate benchmark is replaced with an alternative benchmark interest rate and aims to facilitate the transition. The changes also include disclosures related to the transition. Essity is monitoring all changes concerning the development of interest rate benchmarks. The effects on the financial statements are continuously evaluated. The EU approved the change on January 13, 2021 and it came into effect on January 1, 2021. The implementation of the changes is dependent on the development of changes in the transition from Interbank Offered Rates (IBORs) to alternative benchmark interest rates.

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.

Uncertainty and risks have arisen as a result of the COVID-19 pandemic that may affect Essity's sales, earnings and financial position.

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

Taxes, B5 Income taxes, page 85
Pensions, C4 Remuneration after employment, page 89
Goodwill, D1 Intangible assets, page 92
Provisions, D6 Other provisions, page 95
Provision for doubtful receivables, E3 Trade receivables, page 98
Leases, G2 Leases, page 111
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 105, F3 Joint ventures and associated companies on page 106 and F4 Joint operations on page 108. 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 of Group companies and other operations on page 109. Intra-Group transactions have been eliminated.

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

TRANSLATION OF FOREIGN CURRENCY

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

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

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

Goodwill and fair value adjustments arising in connection with the acquisition of a foreign Group company are translated from their functional currency to the presentation currency in the same way as the net assets in the company are translated.

TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCY

Transactions in foreign currency are translated to a functional currency using the rate prevailing on the transaction date. At the balance sheet date, monetary assets and liabilities in foreign currency are translated at the closing rate and any exchange rate effects are recognized in profit or loss. In cases where the exchange rate effect is related to the operations, the effect is recognized net in operating profit. Exchange rate effects pertaining to borrowing and financial investments are recognized as other financial items. If hedge accounting has been applied, for example, for cash flow hedges or hedging of net investments, the exchange rate effect is recognized in equity in other comprehensive income.

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

GOVERNMENT GRANTS

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

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

CALCULATION OF PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

RETURN MEASURES		Return is a financial term that describes how much the value of an asset changes from an earlier point in time		
Non-IFRS performance measure	Description	Reason for use of the measure		
Return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-months rolling operating profit before amortization of acquisition-related intangible assets (EBITA) as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations.		
Adjusted return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-months rolling operating profit before amortization of acquisition-related intangible assets (EBITA), excluding items affecting comparability, as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter, excluding items affecting comparability, multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations, excluding items affecting comparability.		
SEKm		2020	2019	2018
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE				
EBITA		17,567	15,127	11,560
Items affecting comparability		59	713	1,375
Adjusted EBITA		17,626	15,840	12,935
Average capital employed		112,473	114,663	107,575
Adjusted return on capital employed, ROCE		15.7%	13.8%	12.0%

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES, CONT.

CAPITAL MEASURES Shows how capital is utilized and the company's financial strength			
Non-IFRS performance measure	Description	Reason for use of the measure	
Return on equity	For the Group, return on equity is calculated as profit for the period as a percentage of average equity.	Shows, from a shareholder perspective, the return that is generated on the owners' capital that is invested in the company.	
Adjusted return on equity	For the Group, adjusted return on equity is calculated as profit for the period, excluding items affecting comparability, as a percentage of average equity.	Shows, from a shareholder perspective, the return excluding items affecting comparability that is generated on the owners' capital that is invested in the company.	
Equity	The equity reported in the consolidated balance sheet consists of taxed equity increased by the equity portion of the Group's untaxed reserves and non-controlling interests. The deferred tax liability in untaxed reserves has been calculated on the basis of the corporate tax rate that has been decided to apply when the reserves are expected to be realized.	Equity is the difference between the Group's assets and liabilities, which corresponds to the Group's equity contributed by owners and the Group's accumulated profits including the share of associated non-controlling interests.	
Equity per share	Equity in relation to the average number of shares outstanding that exist in Essity Aktiebolag (publ).	A measure of the amount of equity that exists per outstanding share and is used for measuring the share against the share price.	
Equity/assets ratio	Equity expressed as a percentage of total assets.	A traditional measure for showing financial risk, expressing the percentage of total assets that is financed by the owners.	
Capital employed	The Group's and business areas' capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.	This measure shows the amount of total capital that is used in the operations and is thus one of the components for measuring the return from operations.	
SEKm		2020	2019
CAPITAL EMPLOYED			2018
Total assets	154,645	162,295	154,266
Financial assets	-9,530	-6,988	-5,181
Non-current, non-interest-bearing liabilities	-6,700	-7,269	-9,037
Current, non-interest-bearing liabilities	-32,385	-34,297	-30,745
Capital employed	106,030	113,741	109,303
CAPITAL EMPLOYED			
Personal Care	40,505	44,268	41,768
Consumer Tissue	45,283	47,345	44,915
Professional Hygiene	20,915	22,996	22,153
Other	-673	-868	467
Capital employed	106,030	113,741	109,303
Non-IFRS performance measure	Description	Reason for use of the measure	
Capital turnover	Net sales for the year divided by average capital employed.	Shows in a clear manner how effectively capital is employed. Together with sales growth and the operating margin, the capital turnover ratio is a key measure for monitoring value creation.	
Working capital	The Group's and business areas' working capital is calculated as current operating receivables less current operating liabilities.	This measure shows how much working capital is tied up in the operations and can be put in relation to sales to understand how effectively tied-up working capital is used.	
SEKm		2020	2019
WORKING CAPITAL			2018
Inventories	16,383	15,764	15,234
Trade receivables	17,825	19,864	18,687
Other current receivables	2,173	2,113	2,599
Trade payables	-14,791	-15,802	-15,911
Other current liabilities	-14,545	-14,998	-12,792
Other	101	-159	-249
Working capital	7,146	6,782	7,568

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES, CONT.

CAPITAL MEASURES, cont.		Shows how capital is utilized and the company's financial strength		
Non-IFRS performance measure	Description	Reason for use of the measure		
Net debt	The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less pension assets, cash and cash equivalents and interest-bearing current and non-current receivables.	Net debt is the most relevant measure for showing the company's total debt financing.		
SEKm		2020	2019	2018
NET DEBT				
Surplus in funded pension plans		2,817	2,841	1,117
Non-current financial assets		738	694	634
Current financial assets		993	525	422
Cash and cash equivalents		4,982	2,928	3,008
Financial assets		9,530	6,988	5,181
Non-current financial liabilities		38,202	43,079	43,500
Provisions for pensions		5,328	5,866	5,258
Current financial liabilities		8,688	8,983	10,827
Financial liabilities		52,218	57,928	59,585
Net debt		42,688	50,940	54,404
Non-IFRS performance measure	Description	Reason for use of the measure		
Debt/equity ratio	Debt/equity ratio is expressed as net debt in relation to equity.	Shows financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.		
Debt payment capacity, %	Debt payment capacity is expressed as 12 months rolling cash earnings (see page 76) in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt.		
Adjusted debt payment capacity, %	Adjusted debt payment capacity expressed as 12 months rolling adjusted cash earnings (see page 76) in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.		
Net debt/EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA.	A financial measure that shows the company's capacity to repay its debt.		
Net debt/Adjusted EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA, excluding items affecting comparability.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.		
Interest coverage ratio	Calculated on a net basis, according to which operating profit is divided by financial items.	Helps to show the company's capacity to cover its interest expenses.		
SEKm		2020	2019	2018
Debt/equity ratio, multiple		0.67	0.81	0.99
Debt payment capacity, %		46	38	25
Adjusted debt payment capacity, %		45	40	27
Net debt/EBITDA		1.75	2.33	3.11
Net debt/Adjusted EBITDA		1.76	2.25	2.96
PERFORMANCE MEASURES		Various types of performance measures and margin measures expressed as a percentage of sales		
Non-IFRS performance measure	Description	Reason for use of the measure		
Organic net sales	Underlying change in net sales compared with the preceding period attributable to changed volume, price or product mix excluding changes attributable to exchange rate effects, acquisitions and divestments.	This measure is of major importance for management in its monitoring of underlying net sales driven by changes in volume, price of product mix for comparable units between different periods.		
SEKm		2020	2019	2018
ORGANIC NET SALES				
Personal Care				
Organic net sales		-19	1,549	1,213
Exchange rate effects		-2,248	1,623	1,173
Acquisitions/Divestments		22	-175	2,371
Recognized change		-2,245	2,997	4,757
Consumer Tissue				
Organic net sales		2,060	2,754	1,089
Exchange rate effects		-1,743	1,972	1,832
Acquisitions/Divestments		-	53	190
Recognized change		317	4,779	3,111
Professional Hygiene				
Organic net sales		-4,501	1,010	516
Exchange rate effects		-812	1,703	780
Acquisitions/Divestments		-	1	22
Recognized change		-5,313	2,714	1,318
Group				
Organic net sales		-2,439	5,297	2,868
Exchange rate effects		-4,806	5,299	3,785
Acquisitions/Divestments		22	-121	2,582
Recognized change		-7,223	10,475	9,235
ORGANIC NET SALES, %		2020	2019	2018
Previous period sales		128,975	118,500	109,265
Organic net sales		-2,439	5,297	2,868
Total organic sales for the period		126,536	123,797	112,133
Organic net sales, %		-1.9%	4.5%	2.6%

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES, CONT.

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

SEKm	2020	2019	2018
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)			
Operating profit	16,758	14,349	10,759
Amortization of acquisition-related intangible assets	809	778	732
Depreciation/amortization	5,618	5,815	5,443
Depreciation right-of-use assets	922	884	-
Impairment	125	79	19
Items affecting comparability, net of impairment	197	-27	445
Items affecting comparability, impairment of acquisition-related intangible assets	-	-	69
EBITDA	24,429	21,878	17,467
Items affecting comparability excluding depreciation/amortization and impairment	-138	740	930
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)	24,291	22,618	18,397
SEKm	2020	2019	2018
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)			
Operating profit	16,758	14,349	10,759
Amortization of acquisition-related intangible assets	809	778	732
Items affecting comparability, amortization of acquisition-related intangible assets	-	-	69
Operating profit before amortization of acquisition-related intangible assets (EBITA)	17,567	15,127	11,560
EBITA margin	14.4%	11.7%	9.8%
Items affecting comparability, cost of goods sold	181	243	1,437
Items affecting comparability, sales, general and administration	-122	470	-62
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)	17,626	15,840	12,935
Adjusted EBITA margin	14.5%	12.3%	10.9%

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES, CONT.

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 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 84.	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 operating 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 operating margin comparisons excluding items affecting comparability with other companies, regardless of whether business activities are based on acquisitions or organic growth.
Operating margin	Operating profit as a percentage of net sales for the 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 a 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	2020	2019	2018
ADJUSTED OPERATING PROFIT			
Operating profit	16,758	14,349	10,759
Items affecting comparability	59	713	1,444
Adjusted operating profit	16,817	15,062	12,203
Adjusted operating margin	13.8%	11.7%	10.3%

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 affected comparability.
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	2020	2019	2018
ADJUSTED TAX			
Tax	-4,053	-2,828	-1,050
Tax relating to items affecting comparability	-1	-159	-440
Adjusted tax	-4,054	-2,987	-1,490

Non-IFRS performance measure	Description	Reason for use of the measure
Adjusted profit for the period	Profit for the period excluding 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.

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES, CONT.

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 73.	
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 73.	
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	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.	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	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	2020	2019	2018
OPERATING CASH FLOW			
Personal Care			
Operating cash surplus	9,089	8,785	7,821
Change in working capital	236	401	-410
Investments in non-current assets, net	-1,658	-1,866	-2,134
Restructuring costs, etc.	-101	-644	-271
Operating cash flow before investments in operating assets through leases	7,566	6,676	5,006
Investments in operating assets through leases	-81	-181	
Operating cash flow	7,485	6,495	5,006
Consumer Tissue			
Operating cash surplus	10,817	8,107	5,612
Change in working capital	-548	-553	94
Investments in non-current assets, net	-3,191	-2,239	-3,073
Restructuring costs, etc.	-418	-251	-245
Operating cash flow before investments in operating assets through leases	6,660	5,064	2,388
Investments in operating assets through leases	-205	-194	
Operating cash flow	6,455	4,870	2,388
Professional Hygiene			
Operating cash surplus	5,479	6,589	5,630
Change in working capital	-360	438	-565
Investments in non-current assets, net	-1,135	-1,402	-1,337
Restructuring costs, etc.	-677	-603	-365
Operating cash flow before investments in operating assets through leases	3,307	5,022	3,363
Investments in operating assets through leases	-124	-84	
Operating cash flow	3,183	4,938	3,363

B. SALES AND EARNINGS

B1. NET SALES – REVENUES FROM CONTRACTS WITH CUSTOMERS

AP KAA ACCOUNTING POLICIES AND KEY ASSESSMENTS AND ASSUMPTIONS

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

Revenue recognition

Essity primarily generates revenues from the sale of finished products to, for example, the retail sector, industries and the healthcare sector. Revenue from sales of services occurs to a certain extent but only accounts for a small portion of the Group's sales. Essity's operations and sales are divided into various segments that sell different products in several regions. The product portfolio is diversified but the principles for revenue recognition are the same for all segments. For a description of the products, see the section on Essity's three business areas, Personal Care, Consumer Tissue and Professional Hygiene on pages 24–29. Essity's contracts with customers primarily comprise framework agreements without established minimum volumes, which means that a binding contract according to IFRS 15 criteria does not arise until the customer places an order.

Performance obligations and timing of revenue recognition

Essity's performance obligations in the contracts involve providing the goods specified in the contracts. The performance obligations are satisfied and the revenue recognized when control of the products is passed to the customer. The timing of when control is passed to the customer is determined by the delivery terms (Incoterms) applied in the contract. For most supply contracts, control is passed when the goods have been delivered to the customer's warehouse and the customer thereby can control the use and receive the benefits of the goods. Invoicing is normally done in connection with, or directly after, delivery and recognized at a specific point in time, no revenue is recognized over time. Essity has chosen to apply the practical expedient in IFRS 15 not to disclose the remaining performance obligations that have a term of less than one year.

Determination of transaction price

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

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

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

Trade receivables

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

Contract liabilities

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

Assets that have arisen from expenses to fulfill contracts with customers

In the Professional Hygiene business area, Essity supplies dispensers to customers to fulfill contracts for delivery of the business area's other products, refer to page 28. Expenses for these dispensers are recognized as prepaid expenses under Other non-current assets since Essity expects to cover these expenses through the sale of the business area's other products. The dispensers are depreciated over three years according to the average term of the contract with customers. Recognition takes place in accordance with the rules in IFRS 15 since the expense is directly linked to securing contracts with customers. The rules on Property, Plant and Equipment in IAS 16 and IAS 2 Inventories are not deemed to be applicable since there are no economic benefits associated with the dispenser after it has been delivered to the customer.

The tables below show consolidated net sales broken down by operating segment: Personal Care, Consumer Tissue and Professional Hygiene. Net sales in geographic markets reflects the perspective – sold to, which is based on sales to the countries where Essity has its customers, known as its "footprint." See page 82 for further information.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
2020					
Revenue from contracts with customers					
Sale of finished products	46,089	50,221	25,370	18	121,698
Sale of services	6	–	48	–	54
IS Total revenues from contracts with customers	46,095	50,221	25,418	18	121,752
Geographic markets					
Europe	26,611	29,822	11,970	18	68,421
North America	4,862	34	10,087	–	14,983
Latin America	8,078	5,805	1,386	–	15,269
Asia	4,832	14,390	1,734	–	20,956
Other	1,712	170	241	–	2,123
IS Total revenues from contracts with customers	46,095	50,221	25,418	18	121,752

B1. REVENUE FROM CONTRACTS WITH CUSTOMERS, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
Product category					
Incontinence Products	20,934	–	–	–	20,934
Baby Care	8,650	–	–	–	8,650
Feminine Care	7,956	–	–	–	7,956
Medical Solutions	8,051	–	–	–	8,051
Consumer Tissue	–	50,221	–	–	50,221
Professional Hygiene	–	–	25,418	–	25,418
Other	504	–	–	18	522
IS Total revenues from contracts with customers	46,095	50,221	25,418	18	121,752

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

Product category					
Incontinence Products	21,205	–	–	–	21,205
Baby Care	9,183	–	–	–	9,183
Feminine Care	8,361	–	–	–	8,361
Medical Solutions	8,936	–	–	–	8,936
Consumer Tissue	–	49,904	–	–	49,904
Professional Hygiene	–	–	30,731	–	30,731
Other	655	–	–	0	655
IS Total revenues from contracts with customers	48,340	49,904	30,731	0	128,975

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

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

Trade receivables and contractual liabilities

SEKm	Note	2020	2019	2018
TE3:1 Trade receivables	E3	17,825	19,864	18,687
Contractual liabilities – bonuses and discounts to customers	D5	6,070	6,038	5,269
Contractual liabilities – advance payments from customers		158	157	96

Trade receivables increased by SEK 64m in 2020 due to acquisitions but declined by SEK 126m due to divestments. Overall, trade receivables declined by SEK 2,039m in 2020 due to reduced sales compared with previous year and exchange rate effects.

Assets that have arisen from expenses to fulfill contracts with customers

SEKm	2020	2019	2018
TE3:2 Value, January 1	585	538	484
Costs for the year	473	408	358
Depreciation	–375	–377	–344
Translation differences	–96	16	40
Value, December 31	587	585	538

B2. SEGMENT REPORTING

AP ACCOUNTING PRINCIPLES

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

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

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

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

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

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

No business areas were aggregated to form the aforementioned segments.

The President monitors the operating profit for the business areas separately in order to make decisions regarding the allocation of resources and how performance targets were achieved. The segments are evaluated based on operating profit, excluding items affecting comparability.

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

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total Group
2020						
REVENUES						
IS TB2:2 Net sales	46,095	50,221	25,418	18		121,752
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	7,161	8,045	3,317	-897	-	17,626
Amortization of acquisition-related intangible assets	-766	-6	-37	-	-	-809
Adjusted operating profit/loss per operating segment	6,395	8,039	3,280	-897	-	16,817
TB2:1 Items affecting comparability	-172	-7	-12	132	-	-59
IS Operating profit/loss	6,223	8,032	3,268	-765	-	16,758
IS Financial income						108
IS Financial expenses						-1,066
IS Tax expense for the period						-4,053
IS Profit for the period						11,747
OTHER DISCLOSURES						
Assets	55,778	61,928	28,723	-729	-1,429	144,271
BS Participations in joint ventures and associated companies	222	506	118	1	-	847
Unallocated financial assets				9,527		9,527
BS Total assets	56,000	62,434	28,841	8,799	-1,429	154,645
Net investments/acquisitions	-2,485	-3,396	-1,259	-455	-	-7,595
Depreciation/amortization	-2,718	-2,675	-1,788	-168	-	-7,349
Expenses, in addition to depreciation/amortization, not matched by payments	2	17	439	-2	-	456
NET SALES BY REGION						
Europe	58%	59%	47%			56%
North America	11%	-	40%			12%
Latin America	17%	12%	5%			13%
Asia	10%	29%	7%			17%
Other	4%	-	1%			2%
Total	100%	100%	100%			100%
Mature markets	64%	53%	80%			63%
Emerging markets	36%	47%	20%			37%
Total	100%	100%	100%			100%

B2. SEGMENT REPORTING, CONT.

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

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

B2. SEGMENT REPORTING, CONT.

TB2:1 Items affecting comparability allocated by business segment

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other	Total
2020					
Items affecting comparability – cost of goods sold	-104	-28	-49	-	-181
Items affecting comparability – sales, general and administration	-68	21	37	132	122
Total	-172	-7	-12	132	-59
2019					
Items affecting comparability – cost of goods sold	-123	-62	-58	-	-243
Items affecting comparability – sales, general and administration	-222	-56	-30	-162	-470
Total	-345	-118	-88	-162	-713
2018					
Items affecting comparability – cost of goods sold	-157	-812	-468	-	-1,437
Items affecting comparability – sales, general and administration	116	-248	-26	220	62
Items affecting comparability – acquisition-related intangible assets	-82	14	-	-1	-69
Total	-123	-1,046	-494	219	-1,444

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

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

Customers: Essity had no customers in 2020, 2019 or 2018 from which it generated income that accounted for more than 10% of the company's net sales. Essity's ten largest customers account for 22.5% (23.7; 23.6) of the company's sales.

B2a. SEGMENT REPORTING, CONT.

TB2:2 Group by country	Net sales – sold to ¹⁾						Net sales – sold by ¹⁾					
	2020		2019		2018		2020		2019		2018	
	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Sweden	3,049	2.5	2,774	2	2,636	2	3,485	2.9	3,338	3	3,143	2
EU excl. Sweden												
Germany	13,672	11.2	13,884	11	13,115	11	14,266	11.7	14,544	12	13,713	12
France	10,074	8.3	10,621	8	10,234	9	10,270	8.4	10,859	9	10,491	9
Spain	5,451	4.5	6,004	5	6,005	5	5,593	4.6	6,103	5	6,087	5
Netherlands	3,985	3.3	3,966	3	3,696	3	4,128	3.4	4,121	3	3,892	3
Italy	3,344	2.7	3,762	3	3,541	3	3,616	3.0	4,028	3	3,907	3
Austria	1,967	1.6	1,911	2	1,824	2	2,168	1.8	2,114	2	2,003	2
Belgium	1,700	1.4	1,719	1	1,589	1	1,795	1.5	1,832	1	1,696	1
Finland	1,639	1.3	1,609	1	1,531	1	1,653	1.4	1,606	1	1,520	1
Denmark	1,407	1.2	1,280	1	1,151	1	1,447	1.2	1,246	1	1,098	1
Hungary	1,067	0.9	1,100	1	1,057	1	1,148	0.9	1,169	1	1,075	1
Poland	976	0.8	1,032	1	918	1	1,035	0.8	1,111	1	971	1
UK ²⁾	749	0.6	9,279	7	8,421	7	761	0.6	9,394	7	8,492	7
Czech Republic	697	0.6	698	1	633	1	687	0.6	668	1	607	1
Ireland	577	0.5	564	1	502	0	507	0.4	494	1	430	1
Greece	528	0.4	494	1	536	1	306	0.2	328	0	345	0
Romania	415	0.3	442	0	377	0	393	0.3	384	0	346	0
Portugal	402	0.3	414	0	392	0	335	0.3	352	0	332	0
Croatia	330	0.3	357	0	318	0	–	–	–	–	–	–
Slovakia	328	0.3	305	0	270	0	474	0.4	476	0	479	1
Lithuania	236	0.2	230	0	206	0	236	0.2	230	0	206	0
Rest of EU excl. Sweden	733	0.6	767	1	709	1	336	0.3	355	0	296	0
Total EU excl. Sweden	50,277	41.3	60,438	48	57,025	48	51,154	42.0	61,414	48	57,986	49
Rest of Europe												
UK ²⁾	8,234	6.8	–	–	–	–	8,369	6.9	–	–	–	–
Russia	2,862	2.3	3,380	3	3,225	3	3,060	2.5	3,613	3	3,440	3
Switzerland	1,588	1.3	1,448	1	1,347	1	1,540	1.2	1,398	1	1,295	1
Norway	1,321	1.1	1,344	1	1,271	1	1,304	1.1	1,269	1	1,211	1
Ukraine	399	0.3	418	0	338	0	352	0.3	369	0	298	0
Turkey	262	0.2	378	0	556	1	280	0.2	411	0	601	1
Rest of Europe excl. EU	429	0.4	439	0	419	0	–	–	–	–	–	–
Total Rest of Europe	15,095	12.4	7,407	5	7,156	6	14,905	12.2	7,060	5	6,845	6
TOTAL EUROPE	68,421	56.2	70,619	55	66,817	56	69,544	57.1	71,812	56	67,974	57
North America												
USA	13,016	10.7	16,132	12	14,617	12	12,880	10.6	16,104	12	14,681	12
Canada	1,962	1.6	2,198	2	2,024	2	1,987	1.6	2,227	2	2,046	2
Rest of North America	5	0.0	6	0	6	0	–	–	–	–	–	–
TOTAL NORTH AMERICA	14,983	12.3	18,336	14	16,647	14	14,867	12.2	18,331	14	16,727	14
Latin America												
Mexico	5,754	4.7	6,051	5	4,822	4	6,250	5.1	6,655	5	5,355	5
Colombia	3,594	3.0	4,144	3	3,955	3	3,750	3.1	4,317	4	4,155	4
Ecuador	1,505	1.3	1,652	1	1,510	1	1,487	1.2	1,623	1	1,486	1
Chile	879	0.7	991	1	1,018	1	883	0.7	1,000	1	1,013	1
Peru	558	0.5	590	1	462	1	550	0.5	581	1	425	0
Brazil	526	0.4	637	1	606	1	526	0.4	637	1	605	1
Costa Rica	486	0.4	513	0	476	1	588	0.5	535	0	472	0
Dominican Republic	442	0.4	483	0	431	0	442	0.4	482	0	419	0
Argentina	351	0.3	381	0	374	0	369	0.3	395	0	386	0
Nicaragua	171	0.1	185	0	172	0	–	–	–	–	–	–
Rest of Latin America	1,003	0.8	1,004	1	889	1	367	0.3	324	0	235	0
TOTAL LATIN AMERICA	15,269	12.6	16,631	13	14,715	13	15,212	12.5	16,549	13	14,551	12
Asia												
China	16,021	13.2	15,887	12	13,542	11	16,421	13.5	16,212	12	13,687	11
Malaysia	1,762	1.4	1,740	1	1,544	1	2,055	1.7	2,086	2	1,858	2
Japan	1,003	0.8	1,065	1	852	1	646	0.5	725	1	699	1
Taiwan	388	0.3	370	1	364	1	398	0.3	382	0	373	1
Singapore	321	0.3	283	0	240	0	263	0.2	234	0	202	0
India	153	0.1	234	0	222	0	155	0.1	235	0	219	0
Rest of Asia	1,308	1.1	1,508	1	1,406	1	663	0.6	737	1	670	1
TOTAL ASIA	20,956	17.2	21,087	16	18,170	15	20,601	16.9	20,611	16	17,708	16
Rest of the world												
South Africa	263	0.2	344	1	326	1	352	0.3	457	0	435	0
Tunisia	233	0.2	263	0	262	0	451	0.4	497	0	447	0
Libya	172	0.1	195	0	142	0	–	–	–	–	–	–
Morocco	147	0.1	166	0	139	0	70	0.1	78	0	68	0
Other Rest of the world	1,308	1.1	1,334	1	1,282	1	655	0.5	640	1	590	1
TOTAL REST OF THE WORLD	2,123	1.7	2,302	2	2,151	2	1,528	1.3	1,672	1	1,540	1
Total Group	121,752	100.0	128,975	100	118,500	100	121,752	100.0	128,975	100	118,500	100

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

²⁾ The UK is included in the group EU excl. Sweden up to and including January 2020. Following its exit from the EU, the UK is included in the group Rest of Europe as of February 2020.

B2b. SEGMENT REPORTING, CONT.

TB2:2 Group by country	Average number of employees									Non-current assets ¹⁾		
	2020	Of whom men, %	Of whom women, %	2019	Of whom men, %	Of whom women, %	2018	Of whom men, %	Of whom women, %	2020 SEKm	2019 SEKm	2018 SEKm
Sweden	2,120	53	47	1,984	55	45	2,062	55	45	4,192	3,520	2,331
EU excl. Sweden												
Germany	4,637	73	27	4,559	73	27	4,513	74	26	25,320	26,050	25,552
France	2,489	67	33	2,482	68	32	2,619	68	32	7,380	7,807	8,517
Netherlands	1,244	82	18	1,240	82	18	1,256	82	18	3,267	3,211	2,695
Spain	1,137	76	24	1,171	75	25	1,242	75	25	3,386	3,669	3,646
Slovakia	905	62	38	896	63	37	937	63	37	685	736	1,053
Italy	901	75	25	883	75	25	860	75	25	3,313	3,439	3,001
Poland	842	71	29	840	73	27	826	72	28	1,586	1,922	1,864
Austria	581	81	19	604	81	19	610	81	19	808	864	707
Belgium	482	80	20	472	81	19	474	79	21	668	700	629
Finland	303	73	27	296	74	26	300	74	26	1,097	1,211	773
UK ²⁾	134	75	25	1,614	76	24	1,614	76	24	-	5,742	5,166
Hungary	113	35	65	129	39	61	134	42	58	9	13	5
Denmark	112	45	55	107	43	57	96	40	60	38	42	3
Czech Republic	60	48	52	58	47	53	62	46	54	7	8	1
Greece	45	53	47	46	54	46	49	54	46	14	17	11
Romania	37	41	59	33	36	64	33	36	64	14	19	14
Lithuania	26	46	54	24	50	50	25	48	52	3	4	-
Portugal	20	60	40	20	60	40	22	57	43	75	79	75
Ireland	14	64	36	14	64	36	14	64	36	32	32	29
Croatia	11	36	64	14	29	71	12	35	65	1	2	-
Rest of EU excl. Sweden	16	25	75	16	25	75	17	22	78	2	3	-
Total EU excl. Sweden	14,109	72	28	15,518	73	27	15,715	73	27	47,705	55,570	53,741
Rest of Europe												
UK ²⁾	1,479	75	25	-	-	-	-	-	-	5,094	-	-
Russia	1,299	62	38	1,295	61	39	1,346	61	39	1,090	1,592	1,468
Turkey	125	77	23	134	80	20	231	81	19	39	60	187
Norway	85	49	51	84	50	50	111	41	59	13	15	2
Ukraine	70	43	57	71	42	58	68	44	56	5	5	5
Switzerland	35	29	71	34	29	71	34	35	65	80	140	65
Rest of Europe excl. EU	5	100	-	4	100	-	4	100	-	-	-	-
Total Rest of Europe	3,098	68	32	1,622	61	39	1,794	62	38	6,321	1,812	1,727
TOTAL EUROPE	19,327	69	31	19,124	70	30	19,571	70	30	58,218	60,902	57,799
North America												
USA	3,215	71	29	3,214	71	29	3,473	71	29	16,529	19,283	18,478
Canada	286	64	36	306	65	35	345	61	39	537	598	563
Rest of North America	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL NORTH AMERICA	3,501	71	29	3,520	71	29	3,818	70	30	17,066	19,881	19,041
Latin America												
Colombia	3,676	67	33	3,889	66	34	3,703	68	32	2,025	2,345	2,037
Mexico	3,007	69	31	3,027	70	30	3,060	70	30	4,366	5,207	4,510
Ecuador	1,086	69	31	1,163	66	34	1,171	65	35	542	626	613
Brazil	546	58	42	606	60	40	781	60	40	411	644	718
Chile	420	73	27	422	71	29	468	74	26	596	650	679
Argentina	369	66	34	323	65	35	335	63	37	26	40	60
Dominican Republic	266	67	33	268	66	34	261	65	35	200	236	246
Peru	140	40	60	130	37	63	131	26	74	343	439	400
Costa Rica	92	54	46	89	55	45	91	56	44	11	15	2
Nicaragua	-	-	-	3	67	33	4	38	62	-	-	-
Rest of Latin America	54	43	57	45	49	51	46	49	51	3	3	2
TOTAL LATIN AMERICA	9,656	67	33	9,965	66	34	10,051	67	33	8,523	10,205	9,267
Asia												
China	9,493	57	43	9,287	57	43	9,533	57	43	16,309	16,906	16,435
Malaysia	1,371	43	57	1,332	43	57	1,307	43	57	1,570	1,345	912
India	330	91	9	389	88	12	449	86	14	70	91	75
Taiwan	246	62	38	259	62	38	268	61	39	616	663	649
Japan	122	41	59	134	46	54	148	42	58	68	80	36
Singapore	34	29	71	33	28	72	30	32	68	3	16	11
Rest of Asia	515	62	38	359	53	47	386	56	44	601	709	685
TOTAL ASIA	12,111	56	44	11,793	56	44	12,121	56	44	19,237	19,810	18,803
Rest of the world												
Tunisia	866	89	11	887	92	8	922	89	11	-	119	116
South Africa	404	43	57	449	41	59	437	43	57	643	791	725
Morocco	72	50	50	68	51	49	62	55	45	-	-	-
Libya	-	-	-	-	-	-	-	-	-	-	-	-
Other Rest of the world	147	33	67	174	44	56	240	58	42	842	955	950
TOTAL REST OF THE WORLD	1,489	69	31	1,578	71	29	1,661	71	29	1,485	1,865	1,791
Total Group	46,084	65	35	45,980	66	34	47,222	66	34	104,529	112,663	106,701

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 111.

²⁾ The UK is included in the group EU excl. Sweden up to and including January 2020. Following its exit from the EU, the UK is included in the group Rest of Europe as of February 2020.

B3. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function

SEKm	2020	2019	2018
IS Cost of goods sold	-82,132	-90,876	-85,058
IS Sales, general and administration	-22,088	-22,319	-20,570
IS Share of profits of associated companies and joint ventures	94	60	63
IS Amortization of acquisition-related intangible assets	-809	-778	-732
IS TB3:1 Items affecting comparability	-59	-713	-1,444
Total	-104,994	-114,626	-107,741

Refer also to the Description of costs section on page 138.

Operating expenses by type of cost

SEKm	Note	2020	2019	2018
TB3:2 Other income		1,066	1,028	897
Change in inventory of finished products and products in progress ¹⁾		87	-962	196
Raw materials and consumables ¹⁾		-41,384	-43,800	-43,771
Personnel costs ¹⁾	C1	-22,914	-23,888	-22,021
TB3:3 Other operating expenses ¹⁾		-34,318	-39,399	-36,412
Amortization of intangible assets ¹⁾	D1	-1,140	-1,111	-1,049
Depreciation of property, plant and equipment ¹⁾	D2, G2	-6,209	-6,366	-5,126
Impairment of intangible assets ¹⁾	D1	-54	-19	-105
Impairment of property, plant and equipment ¹⁾	D2	-276	-152	-428
Reversal of impairment of property, plant and equipment ¹⁾	D2	8	119	-
Share in profits of associated companies and joint ventures ¹⁾		71	84	-215
Revaluation of previously owned shares in associated companies ¹⁾	F6	-	-	225
Gain/loss on divestment and liquidation ^{1) 2)}		69	-160	68
Total		-104,994	-114,626	-107,741

¹⁾ Including items affecting comparability.

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

TB3:1 Items affecting comparability

Distribution of items affecting comparability by type of cost

SEKm	2020	2019	2018
Impairment of inventory of finished products and products in progress, net	-9	-70	-61
Impairment of trade receivables	-	-10	-
Personnel costs	187	-445	-700
Other operating expenses	-86	-79	-183
Impairment of intangible assets, net	-54	-16	-105
Impairment of property, plant and equipment, net	-143	43	-410
Share in profits of associated companies from impairment and divestments	-23	24	-278
Revaluation of previously owned shares in associated companies	-	-	225
Gain/loss on divestment and liquidation	69	-160	68
Total	-59	-713	-1,444

Distribution of items affecting comparability

SEKm	2020
Gain from settlement of defined benefit pension liability	187
Gain/loss on divestment and liquidation	69
Costs for restructuring measures, Russia among other countries	-198
Increase of previous provision for legal disputes	-80
Other	-37
Total	-59

Distribution of items affecting comparability, previous periods

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

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

TB3:2 Other income

SEKm	2020	2019	2018
Sales not included in core operations	1,066	1,028	897
Total	1,066	1,028	897

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

TB3:3 Distribution of other operating expenses

SEKm	2020	2019	2018
Transport expenses	-9,107	-9,360	-8,290
Energy costs ¹⁾	-4,493	-5,125	-4,775
Purchased finished goods for resale	-2,564	-6,811	-5,144
Marketing costs	-6,745	-6,604	-6,031
Repairs and maintenance	-2,966	-2,927	-2,546
IT, telephony and lease of premises ²⁾	-974	-903	-1,633
Other operating expenses, production	-3,759	-4,092	-3,919
Other operating expenses, distribution, sales and administration	-3,516	-3,481	-3,674
Other	-194	-96	-400
Total	-34,318	-39,399	-36,412

¹⁾ After deduction for revenues from energy in the amount of SEK 186m (184; 327).

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

Other disclosures

Exchange rate effects had a negative impact of SEK -11m (-70; -186) on operating profit.

Other disclosures¹⁾

SEKm	2020	2019	2018
Government grants received ²⁾	241	47	55
Research and development	-1,559	-1,485	-1,320

¹⁾ These items are included in the tables above in Note B3 under the respective type of cost.

²⁾ The increase in government grants received for 2020 pertains mainly to grants received in China related to the COVID-19 pandemic.

B4. AUDITING EXPENSES

Auditing expenses

SEKm	2020	2019	2018
EY			
Audit assignments	-69	-70	-64
Auditing activities other than the audit assignment	-2	-2	-2
Tax consultancy services	-2	-2	-1
Other assignments	-1	-3	-3
Total EY	-74	-77	-70
Other auditors			
Audit assignments	-15	-18	-17
Tax consultancy services	-14	-10	-5
Other assignments	-2	-8	-9
Total other auditors	-31	-36	-31
Total	-105	-113	-101

B5. INCOME TAXES

AP ACCOUNTING PRINCIPLES

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

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

Deferred tax is calculated based on temporary differences between the carrying amounts and the tax base values of assets and liabilities and for tax loss carryforwards and other unutilized tax deductions where it is probable that these can be utilized against future taxable profits. Deferred taxes are measured in the balance sheet at their nominal amount and based on the tax rates enacted or substantively enacted on the balance sheet date. Deferred tax is not calculated on the initial recognition of goodwill or when an asset

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

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

To determine the value of current and deferred tax assets and tax liabilities on the balance sheet date, it is necessary to make certain assessments and assumptions. Given that Essity operates globally, the company monitors future changes to tax legislations in addition to the development of the business climate in many countries. These factors could impact the company's future taxable profits and thus its possibility to utilize deferred tax assets on loss carryforwards, tax credits and other temporary differences. Furthermore, Essity evaluates tax assets and tax liabilities on a regular basis.

If it is deemed probable that a chosen tax position will not be accepted by a tax authority or court, the tax liability is adjusted in accordance with the presumed outcome. Accordingly, a changed assessment of the probability of future taxable profits, or the probability that a tax authority or court will accept a chosen tax position, could have a positive or negative effect. The actual outcome may differ from the assessment that Essity has made.

Tax expense

Tax expense (+), tax income (-)						
SEKm	2020	%	2019	%	2018	%
Current tax						
Income tax for the period	3,603	22.8	2,764	21.2	2,207	23.0
Adjustments for prior periods ¹⁾	139	0.9	1,020	7.8	-1,324	-13.8
TB5:1 Current tax expense	3,742	23.7	3,784	29.0	883	9.2
Deferred tax						
Changes in temporary differences	467	3.0	275	2.1	226	1.9
Adjustments for prior periods ¹⁾	-45	-0.3	-1,252	-9.6	37	-0.8
Revaluations	-111	-0.7	21	0.2	-96	0.6
TB5:1 TB5:2 TB5:3 Deferred tax expense	311	2.0	-956	-7.3	167	1.7
IS Tax expense	4,053	25.7	2,828	21.7	1,050	10.9

¹⁾ During 2019, tax liabilities were reallocated between current tax and deferred tax, which resulted in an increase in current tax liabilities of SEK 936m and a corresponding impact on deferred tax income.

Explanation of tax expense

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

Tax expense						
SEKm	2020	%	2019	%	2018	%
IS Profit before tax	15,800		13,040		9,602	
IS Tax expense	4,053	25.7	2,828	21.7	1,050	10.9
Expected tax expense	3,789	24.0	3,036	23.3	2,144	22.3
Difference	264	1.7	-208	-1.6	-1,094	-11.4
The difference is explained by:						
Permanent differences between accounting and taxable result						
Effects of subsidiary financing ¹⁾	57	0.4	-165	-1.3	-35	-0.4
Effects of acquisitions and divestments ²⁾	-19	-0.1	53	0.4	-106	-0.9
Taxes relating to profit-taking	32	0.2	27	0.2	42	0.4
Other permanent effects ³⁾	1	-0.0	102	0.8	272	2.3
Taxes related to prior periods ⁴⁾	94	0.6	-232	-1.8	-1,287	-14.5
Changes in the value of deferred tax assets ⁵⁾	44	0.3	37	0.3	60	2.1
Changes in tax rates ⁶⁾	55	0.3	-30	-0.2	-40	-0.4
Total	264	1.7	-208	-1.6	-1,094	-11.4

¹⁾ The effects are principally attributable to financing of the operation in Germany. The years 2019 and 2018 pertain to the financing effects in the USA, Germany, France and Belgium (only 2018).

²⁾ The year 2019 relates essentially to divested operations in Turkey and Brazil. In the year 2018, the effects of acquisitions and divestments relate essentially to acquisitions and the revaluation of existing holdings in operations in Peru and Bolivia.

³⁾ The year 2019 primarily comprises BEAT effects in the USA of SEK 125m. For the year 2018 the effects relate to a non-deductible share in profit in Asaleo Care of SEK 97m primarily attributable to an impairment of assets, and dissolution effects of tax on non-current assets of SEK -57m.

⁴⁾ Taxes attributable to prior periods relate mainly to adjustments in Mexico, Germany and the Netherlands. For year 2019, the largest share pertains to the effect of a remeasurement of the tax amount on non-current assets in Mexico of SEK -253m. Year 2018 relates mainly to the effect of a tax dispute in Sweden totaling SEK -1,110m and a tax dispute in Denmark totaling SEK -417m in which the final rulings were in Essity's favor.

⁵⁾ The change in value of deferred tax assets relates mainly to uncapped tax loss carryforwards in Brazil of SEK 50m. The year 2019 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 the year 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.

⁶⁾ Relates mainly to the revaluation of a deferred tax liability of SEK 87m concerning pension obligations in the UK.

B5. INCOME TAXES, CONT.

Current tax liability

Current tax liability (+), current tax asset (-)				
SEKm	2020	2019	2018	
Value, January 1	1,687	-1,556	-216	
TB5:1 Current tax expense	3,742	3,784	883	
OCF CF TB5:1 Paid tax	-3,917	-1,130	-2,466	
Other changes from acquisitions, divestments and reclassifications ¹⁾	40	670	240	
Translation differences	-11	-81	3	
Value, December 31	1,541	1,687	-1,556	
BS of which current tax liability	2,301	2,432	570	
BS of which current tax asset	760	745	2,126	

¹⁾ During 2019, tax risks were reclassified as tax liabilities from provisions in line with the interpretation of IFRIC 23 Uncertainty over Income Tax Treatments, which has taken effect.

B5:1 Tax by country

Tax expense (+), tax income (-) Tax payments made by entities in different countries, paid tax (-), SEKm				
Country	Current tax expense	Deferred tax expense	Total tax expense	Paid tax
Sweden	527	121	648	-123
Netherlands	521	63	584	-772
China	565	-34	531	-592
UK	125	179	304	-147
Germany	225	18	243	-260
France	136	47	183	-184
USA	148	33	181	-226
Colombia	173	-6	167	-240
Spain	114	-4	110	-210
Austria	80	11	91	-39
Poland	45	34	79	-58
Belgium	96	-19	77	-80
Italy	76	-1	75	-102
Ecuador	73	-2	71	-99
Russia	69	-10	59	-73
Finland	67	-9	58	-59
Canada	64	-6	58	0
Denmark	53	1	54	-53
Mexico	174	-123	51	-153
Japan	48	1	49	-40
Switzerland	46	0	46	-29
Slovakia	24	19	43	-31
Norway	38	1	39	-33
Peru	37	-2	35	-32
Other countries ¹⁾	218	-1	217	-282
OCF CF IS Total	3,742	311	4,053	-3,917

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

TB5:2 Deferred tax liability

Deferred tax liability (+), deferred tax asset (-)					
SEKm	Value, January 1	Deferred tax expense	Other changes ²⁾	Translation differences	Value, December 31
Intangible assets	5,874	1,295	158	-335	6,992
Property, plant and equipment	3,522	-1,640	-99	-198	1,585
Non-current financial assets	150	530	-143	-36	501
Current assets	-435	37	7	35	-356
Provisions	-646	-86	-140	119	-753
Liabilities	-1,618	-317	40	99	-1,796
Tax credits and tax loss carryforwards	-2,340	854	25	144	-1,317
Other	-501	-362	381	-47	-529
Total¹⁾	4,006	311	229	-219	4,327

¹⁾ The net closing deferred tax liability comprises **BS** deferred tax assets of SEK 1,823m (2,539; 2,158) and **BS** deferred tax liabilities of SEK 6,150m (6,545; 7,272).

²⁾ Other changes mainly include deferred tax recognized directly in other comprehensive income within equity according to IAS 19 Employee Benefits of SEK -279 m and IFRS 9 Financial Instruments of SEK 419m, in addition to effects from acquisitions and divestments of SEK 89m.

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

YEAR	Value, January 1	Deferred tax expense	Other changes	Translation differences	Value, December 31
BS 2019	5,114	-956	-234	82	4,006
BS 2018	4,858	167	-167	256	5,114

Tax loss carryforwards

Tax credits and tax loss carryforwards for which deferred tax assets were recognized have been reported at the tax amount on the line Tax credits and tax loss carryforwards in **TB5:2** in the amount of SEK -1,317m.

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 4,342m (6,412; 6,470), gross, at December 31, 2020.

The change in uncapitalized tax loss carryforwards for the period includes SEK 842m in exchange rate effects, SEK 573m that has expired and SEK 290m that was either utilized or capitalized. The tax value of uncapitalized tax loss carryforwards amounted to SEK 1,145m (1,791; 1,748). The expiry dates of these tax loss carryforwards are distributed as follows:

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

Year of maturity	2020	2019	2018
Within 1 year	13	90	48
2 years	43	62	305
3 years	13	53	17
4 years	66	99	100
5 years or more	426	1,108	1,499
Indefinite life	3,781	5,000	4,501
Total	4,342	6,412	6,470

C1. PERSONNEL COSTS

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

Personnel costs				
SEKm	Note	2020	2019	2018
Salaries and remuneration		-16,228	-16,825	-15,403
TC2:1 of which Executive Management Team	C2	-103	-141	-124
of which Board	C3	-9	-9	-9
Pension costs		-1,215	-1,411	-1,433
of which defined benefit pension costs	C4	-240	-468	-528
of which other pension costs		-975	-943	-905
Other social security costs		-3,849	-4,194	-3,594
Other personnel costs		-1,622	-1,458	-1,591
Total¹⁾		-22,914	-23,888	-22,021

¹⁾ Items affecting comparability of SEK 187m (-445; -700) are included in total personnel costs.

C2. REMUNERATION OF SENIOR EXECUTIVES

AP ACCOUNTING PRINCIPLES

Incentive programs

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

Description of incentive programs

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

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

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

Annual General Meeting guidelines for remuneration of senior executives

These guidelines shall govern remuneration to Board directors, the President, vice presidents and other senior executives. The guidelines do not include remuneration decided upon by the General Meeting.

Remuneration principles

Successful implementation of the company's business strategy and the fostering of the company's long-term interests, including its sustainability, require that the company is able, through competitive remuneration on market terms, to recruit, incentivize and retain skilled employees. The total remuneration package must therefore be on market terms and competitive on the executive's field of profession, and must be related to the executive's responsibilities, powers and performance. The remuneration may comprise fixed salary, variable remuneration, other benefits and pension. The company's business strategy is presented in the company's Annual and Sustainability Report.

Variable remuneration

Variable remuneration shall be based on results relative to established short-term (one year) and long-term financial targets, targets which contribute thereto or to the performance of the company's share. Remuneration shall be aimed at promoting the company's business strategy and long-term interests, including its sustainability. Furthermore, variable remuneration shall be paid as cash remuneration and shall not be included in the basis for pension computation. The short-term element shall not exceed 100% of annual fixed salary and the long-term element shall not exceed 50% of annual fixed salary.

Short-term performance targets shall include organic growth, product development, earnings, cash flow, capital efficiency, sustainability, return, individual targets or a combination thereof.

Long-term performance targets shall be linked to the performance of the company's class B share measured as TSR index (Total Shareholder Return) compared with MSCI Household products Index, Consumer staples, which includes shares of competing companies, over a three-year period, where maximum outcome requires that the performance of the Essity share exceeds the benchmark index by more than 5% over a multi-year period. Payment of cash remuneration for achieved long-term performance targets shall also be subject to a requirement that one-half of such paid remuneration after tax shall be used for investment by the recipient in Essity shares. Such shares may not be divested during a period of three years from the date of purchase; among other things, to create a shared ownership interest between the participants in the program and the shareholders.

The company shall have the possibility to withhold payment of variable remuneration where necessary and possible according to law, provided there are special reasons for so doing and such a measure is necessary to meet the company's long-term interests, including its sustainability. Furthermore, the company shall have the possibility provided by law to demand repayment of any variable remuneration paid based on erroneous grounds.

Pension and other benefits

Pension benefits shall be contribution-defined, and the annual premium shall not exceed 40% of the fixed annual salary. The retirement age shall be 65.

Other, lesser benefits may include medical insurance, company car, fitness allowance as well as membership and service fees, training/education and other support.

A notice of termination period of not more than two years shall apply upon termination of the employment relationship where the termination is initiated by the company, and of not more than one year where the termination is initiated by the executive. Severance pay should not exist.

Decision-making process and reporting

Matters relating to remuneration to senior executives shall be addressed by the Board's Remuneration Committee and, with respect to the President, decided upon by the Board. The duties of the Remuneration Committee shall also include preparing board decisions regarding proposals for guidelines for remuneration to senior executives, performing oversight as well as monitoring and assessing the application thereof. When the Board or the Remuneration Committee addresses and decides on remuneration-related matters, senior executives may not be present insofar as the matter relates to them and, with respect to the calculation of variable remuneration, an audit certificate must be obtained before any decision is taken regarding payment. In the preparation of the remuneration guidelines, consideration has been given to salary and employment conditions for the company's other employees, such as information regarding total remuneration, components of the remuneration as well as the increase in remuneration and the rate of increase over time, and the company's equality of opportunity policy. The Board shall prepare a remuneration report.

Application of, and deviation from, the guidelines

The Board may decide to temporarily deviate from the guidelines, wholly or in part, if there are special reasons for so doing in an individual case and deviation is necessary to satisfy the company's long-term interests, including its sustainability. The duties of the Remuneration Committee include preparing board decisions on remuneration issues, including decisions

C2. REMUNERATION OF SENIOR EXECUTIVES, CONT.

regarding deviations from the guidelines. With respect to employment relationships governed by rules other than Swedish rules, appropriate adjustments shall take place with respect to pension benefits and other benefits to ensure compliance with such rules or local practice, whereupon the overarching purpose of these guidelines shall be attained as far as possible.

The guidelines shall not take precedence over mandatory terms or employment law legislation or collective agreements. Nor shall they apply to already executed agreements.

Company's application of guidelines

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

Fixed salary

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

Variable remuneration

Variable remuneration of the CEO, Executive Vice President and Business Unit Presidents and equivalents is maximized to a total of 100% of the fixed salary. For two Business Unit Presidents, stationed in the Americas, the maximum outcome is 110–130%. The corresponding limit for other senior executives is 90–100%. The program for variable remuneration is divided into short-term and long-term portions. The short-term portion ("Short Term Incentive", or STI) for the CEO, Executive Vice President and Business Unit Presidents and equivalents may amount to a maximum of 50% of fixed salary. For the Business Unit Presidents, stationed in the Americas, the maximum outcome is 60–80% of the fixed salary, while the corresponding limit for other senior executives is 40–50%. The STI goals set for the Business Unit Presidents are mainly based on organic sales growth, EBITA margin, operating cash flow for each business unit and Group-wide cash flow goals and sustainability goals.

The goal for the CEO and others reporting directly to him is based primarily on organic sales growth, EBITA margin, operating cash flow, the Group's profit and sustainability goals. Furthermore, for certain senior executives, goals for cost efficiency and innovation also apply, accounting for 21% of the variable remuneration. The sustainability target, Science Based Targets Scope 1 and 2, which aims to reduce emissions of carbon dioxide in energy utilization and purchased electricity, accounts for 9% of the variable remuneration.

The long-term portion ("Long Term Incentive", or LTI) may amount to a maximum of 50% of the fixed salary. The senior executive is to invest half of the variable LTI compensation, after tax withholdings, in Essity shares. The shares may then not be sold before the end of the third year after the purchase of shares in the relevant LTI program.

Outcome, variable remuneration

For the CEO, Executive Vice President and Central Staff Managers, STI resulted in 32–40% of fixed salary for 2020. STI resulted in variable remuneration corresponding to 24–51% of fixed salary for the Business Unit Presidents. With the salary situation prevailing in 2020 with 12 senior executives, the maximum outcome of variable remuneration would entail a cost for the Group, excluding social security costs, of approximately SEK 38m.

The LTI target was not achieved for 2018–2020, resulting in no outcome for the CEO and other senior executives.

Other benefits

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

TC2:1 Remuneration and other benefits during the year 2020

SEK	Fixed salary	Variable remuneration ¹⁾	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	15,000,000	5,670,000 ²⁾	112,291	20,782,291
Other senior executives (11 people)	55,964,618	20,833,766 ²⁾	5,611,119	82,409,503
Total	70,964,618	26,503,766	5,723,410	103,191,794

¹⁾ Variable remuneration covers the 2020 fiscal year but is paid in 2021.

²⁾ Of which LTI program SEK 0.

Pension costs 2020¹⁾

SEK	
President and CEO Magnus Groth ²⁾	6,269,391
Other senior executives (11 people) ³⁾	17,146,081
Total	23,415,472

¹⁾ The pension costs pertain to the costs that affected profit for 2020, excluding special payroll tax.

²⁾ Outstanding pension obligations amount to SEK 25,707,004.

³⁾ Outstanding pension obligations amount to SEK 95,565,302.

Pension

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

Notice period and severance pay

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

Preparation and decision process for remuneration

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

TC2:1 Remuneration and other benefits during the year 2019

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

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

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

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

C2. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Pension costs 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.

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.

Obligations in relation to former presidents and CEOs

For former presidents and CEOs, Essity has outstanding, non-funded obligations amounting to SEK 190m. These costs were recognized in previous years and comprise pension obligations that Essity assumed from Svenska Cellulosa Aktiebolaget in conjunction with the split of the Group.

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

Remuneration to non-executive Board members of Essity Aktiebolag (publ) refers to the fees approved at the AGM on April 2, 2020 for the period until

the next AGM in March 2021. No remuneration is paid to the President and CEO and other employees.

SEK	Board fee			Audit Committee fee			Remuneration Committee fee			Total		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Pär Boman (Chairman)	2,310,000	2,310,000	2,220,000	275,000	275,000	264,000	150,000	150,000	143,000	2,735,000	2,735,000	2,627,000
Ewa Björling	770,000	770,000	740,000							770,000	770,000	740,000
Majja-Liisa Friman	770,000	770,000	740,000							770,000	770,000	740,000
Annemarie Gardshol	770,000	770,000	740,000							770,000	770,000	740,000
Louise Svanberg	770,000	770,000	740,000				115,000	115,000	111,000	885,000	885,000	851,000
Bert Nordberg	770,000	770,000	740,000	275,000	275,000	264,000	115,000	115,000	111,000	1,160,000	1,160,000	1,115,000
Barbara Milian Thoralfsson	770,000	770,000	740,000	380,000	380,000	349,000				1,150,000	1,150,000	1,089,000
Lars Rebien Sørensen	770,000	770,000	740,000							770,000	770,000	740,000
Total	7,700,000	7,700,000	7,400,000	930,000	930,000	877,000	380,000	380,000	365,000	9,010,000	9,010,000	8,642,000

C4. REMUNERATION AFTER COMPLETION OF EMPLOYMENT

AP ACCOUNTING PRINCIPLES

Defined benefit pension plans

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

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

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus

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

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

Defined contribution pension plans

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

Other post-retirement benefits

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

Severance pay

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

C4. REMUNERATION AFTER COMPLETION OF EMPLOYMENT, CONT.

CAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

Provisions for pensions and similar obligations

SEKm	2020	2019	2018
TC4:2 Defined benefit obligations	32,717	38,510	33,082
TC4:3 Fair value of plan assets	-31,260	-36,372	-29,648
TC4:4 Effect of asset ceiling	1,054	887	707
TC4:1 Provision for pensions, net	2,511	3,025	4,141

Surpluses in funded plans recognized as financial non-current assets amounted to **BS** SEK 2,817m (2,841; 1,117) on the balance sheet date and provisions for pensions totaled **BS** SEK 5,328m (5,866; 5,258). Defined benefit obligations include obligations in an amount of SEK 2,908m (2,889; 2,380) pertaining to unfunded plans.

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

TC4:1 Provisions for pensions and similar obligations per country

SEKm Country	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
UK	15	9,266	8,394	17,675	-19,251		-1,576	19
Sweden	2,058	1,257	1,393	4,708	-3,723	1,054	2,039	20
Germany	2,542	741	1,558	4,841	-4,993		-152	17
USA	474	1,056	1,983	3,513	-2,949		564	12
Other	1,609	12	359	1,980	-344		1,636	12
Total	6,698	12,332	13,687	32,717	-31,260	1,054	2,511	

Netherlands

The plan was changed in 2020, thereby eliminating Essity's guarantees concerning funding levels for previous and future vesting. Elimination of the guarantees resulted in a reclassification of the pension commitment from defined benefit to defined contribution in accordance with IAS 19, and a gain from settlements of SEK 187m was recognized in items affecting comparability. Defined benefit obligations of SEK 5,488m and plan assets of SEK 5,301m have been deconsolidated after a one-off payment of SEK 167m was made to the pension fund.

UK

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

Costs for the period for defined benefit plans

SEKm	2020	2019	2018
Current service cost, after deduction for premiums paid by the employees	-428	-528	-589
Past service cost	-2	16	36
Pension-tax expense	-41	-36	-33
Remeasurement, net	-11	-26	9
Net interest income/expense	-34	-93	-83
Pension costs before effects of settlements	-516	-667	-660
Settlements	201	70	16
Pension costs after effects of settlements	-315	-597	-644

In 2020, the Dutch pension plan was changed, resulting in it being reclassified from defined benefit to defined contribution in accordance with IAS 19. A gain from settlements was recognized as an item affecting comparability in the amount of SEK 187m as a result of this.

Sweden

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

Germany

In Germany, the defined benefit obligation comprises a number of different pension plans offering retirement pension, beneficiaries' pension and disability pension. Plans based on final salary exist but these are closed to new participants and the benefit depends on the length of service and final salary at retirement. Defined contribution plans are also offered in which the benefit depends on provisions made by the company and, in certain plans, even by the employee during the period of service, and guaranteed return on the provisions. The obligations are largely financed by two different funds and the company may, in certain instances, compensate itself using any surpluses in the plan assets. In 2020, minor pension obligations were settled through the payment of a one-off amount to the pension holders totaling SEK 9m, which reduced the pension liability by SEK 11m.

USA

In the USA, the defined benefit obligations comprise retirement pensions in which the premiums are paid by the company and the benefit is based on a standard amount per service year. Only one plan is still open for new accrual for about 200 employees. The benefits are financed via a pension fund that is obligated to meet the minimum legislated funding level. Surpluses in the pension fund can be utilized in the form of premium discounts. In 2020, healthcare benefits to pensioners have been settled in insurance by the company paying a one-off premium of SEK 17m, which reduced the pension liability by SEK 18m.

C4. REMUNERATION AFTER COMPLETION OF EMPLOYMENT, CONT.

TC4:2 Defined benefit obligations

SEKm	2020	2019	2018
Value, January 1	38,510	33,082	33,007
Current service cost	429	540	601
Interest expense	608	895	811
Past service cost	2	-16	-36
Pension-tax expense	41	36	33
Settlements and transfers	-57	-293	-251
Reclassification	-5,488	-	-
Acquisitions and divestments	-	-1	2
Benefits paid	-1,323	-1,398	-1,445
Pension taxes paid	-11	-10	-12
Remeasurement: financial assumptions	3,345	4,668	-1,102
Remeasurement: demographic assumptions	-248	37	-26
Remeasurement: experience-based assumptions	-567	-538	304
Pension taxes pertaining to remeasurement	-49	68	69
Translation differences	-2,475	1,440	1,127
Value, December 31	32,717	38,510	33,082

Reclassification of SEK 5,488m in 2020 pertains to the deconsolidation of the former defined benefit obligations attributable to the Dutch pension plan.

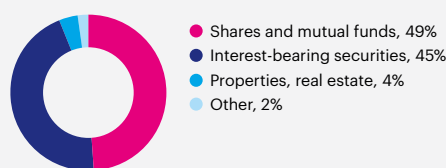
Remeasurements in the defined benefit obligations comprise changes in financial assumptions, such as changes to the discount rate, any changes in demographic assumptions and experience-based deviations. Experience-based deviations include for example unexpectedly high or low employee turnover or salary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

TC4:3 Plan assets

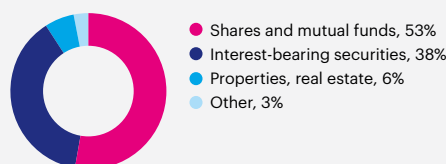
SEKm	2020	2019	2018
Fair value, January 1	-36,372	-29,648	-30,418
Interest income	-586	-818	-747
Contributions by plan participants	-1	-12	-12
Contributions by the employer	-1,048	-1,292	-1,019
Benefits paid, excluding settlements	1,312	1,396	1,368
Benefits paid for settlements	54	253	226
Reclassification	5,301	-	-
Return in excess of recognized interest income	-2,434	-4,881	1,909
Administrative expenses for pension obligations	36	44	42
Translation differences	2,478	-1,414	-997
Fair value, December 31	-31,260	-36,372	-29,648

Reclassification of SEK 5,301m in 2020 pertains to the deconsolidation of the plan assets attributable to the Dutch pension plan.

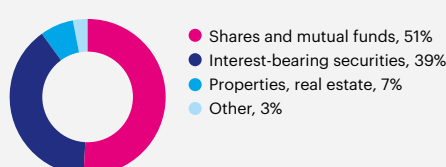
The plan assets are distributed according to the following classes of assets, 2020:



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



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



At the balance sheet date 94% (93/92) of the plan assets were traded on active markets for which market quotations were used for the valuation. As in the preceding year, no financial instruments issued by Essity are included in the fair value of plan assets at December 31, 2020.

TC4:4 Effect of asset ceiling

SEKm	2020	2019	2018
Value, January 1	887	707	804
Interest expense	12	16	19
Other changes to asset ceiling	155	164	-116
Value, December 31	1,054	887	707

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

TC4:5 Principal actuarial assumptions

	Sweden	UK	Germany	Netherlands ¹⁾	USA
2020					
Discount rate	0.83	1.37	0.38	N/A	2.56
Expected salary increase rate	2.75	N/A	2.75	N/A	N/A
Expected inflation	1.75	3.00	1.50	N/A	N/A
Life expectancy, men ²⁾	22	21	20	N/A	20
Life expectancy, women ²⁾	25	24	24	N/A	21
2019					
Discount rate	1.40	2.07	0.96	1.07	3.16
Expected salary increase rate	3.00	N/A	2.75	2.75	N/A
Expected inflation	2.00	3.00	1.50	1.50	N/A
Life expectancy, men ²⁾	22	22	20	21	20
Life expectancy, women ²⁾	25	24	24	24	22
2018					
Discount rate	2.26	2.72	1.87	1.94	4.30
Expected salary increase rate	3.25	N/A	3.00	3.00	N/A
Expected inflation	2.00	3.00	1.75	1.75	N/A
Life expectancy, men ²⁾	22	22	20	21	20
Life expectancy, women ²⁾	25	24	24	24	22

¹⁾ As of 2020, the Dutch pension plan is recognized as a defined contribution pension obligation.

²⁾ Life expectancy, expressed in years, for an individual currently aged 65.

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

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

SEKm	
Discount rate +0.25%	1,333
Price inflation, incl. salary inflation +0.25%	-1,071
Life expectancy +1 year	-1,460

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

Multiemployer plans

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

Budgeted contributions

The budgeted contributions for the company's defined benefit pension plans for 2021 are calculated at SEK 922m. Contributions for multiemployer plans for 2021 are calculated at SEK 46m.

D. OPERATING ASSETS AND LIABILITIES

D1. INTANGIBLE ASSETS

AP ACCOUNTING PRINCIPLES

Goodwill

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

Trademarks

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

Licenses, patents and similar rights

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

Customer relations

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

Research and development

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

Impairment testing

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

Emission allowances and costs for carbon dioxide emissions

Essity participates in the European system for emission allowances.

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

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

D1. INTANGIBLE ASSETS, CONT.

Goodwill

SEKm	2020	2019	2018
Accumulated costs	32,324	34,846	33,887
Accumulated impairment	-	-265	-334
Total	32,324	34,581	33,553
Value, January 1	34,581	33,553	31,697
Company acquisitions	603	-	311
Company divestments	-36	-15	-
Reclassifications	-	-	-7
Impairment	-	-	-49
Translation differences	-2,824	1,043	1,601
BS Value, December 31	32,324	34,581	33,553

Intangible assets excluding goodwill

SEKm	Trademarks			Technologies, Customer relations and similar rights			Capitalized development costs			Total Other intangible assets		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Accumulated costs	13,401	14,686	14,438	10,963	12,305	11,863	532	513	447	24,896	27,504	26,748
Accumulated amortization	-506	-559	-446	-5,731	-5,301	-4,312	-180	-132	-87	-6,417	-5,992	-4,845
Accumulated impairment	-	-468	-446	-86	-94	-73	-51	-	-	-137	-562	-519
Total	12,895	13,659	13,546	5,146	6,910	7,478	301	381	360	18,342	20,950	21,384
Value, January 1	13,659	13,546	13,117	6,910	7,478	7,927	381	360	309	20,950	21,384	21,353
Investments	-	-	-	459	138	153	43	58	77	502	196	230
Sales and disposals	-	-44	-	-1	-	-4	-	-	-	-1	-44	-4
Company acquisitions	50	-	9	185	-	68	1	-	-	236	-	77
Company divestments	-	-	-	-2	-	-	-	-	-	-2	-	-
Reclassifications ²⁾	-	1	-	-1,161	88	-59	-1	-1	-	-1,162	88	-59
Amortization ¹⁾	-137	-109	-78	-946	-958	-929	-57	-44	-42	-1,140	-1,111	-1,049
Impairment	-	-	-56	-	-19	-	-54	-	-	-54	-19	-56
Translation differences	-677	265	554	-298	183	322	-12	8	16	-987	456	892
Value, December 31	12,895	13,659	13,546	5,146	6,910	7,478	301	381	360	18,342	20,950	21,384
TD1:1 Emission allowances, net value										232	232	91
BS Value, December 31 including emission allowances										18,574	21,182	21,475

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

²⁾ In 2020, leases for land were reclassified from other intangible assets to right-of-use asset in the amount of SEK 1,206m.

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. The testing showed that no impairment was needed for 2020, 2019 or 2018. The WACC before tax used in the impairment testing of goodwill is presented in the table below. Sensitivity analyses show that reasonable changes to key parameters do not give rise to any impairment requirement.

In addition to annual impairment testing of the cash-generating units, outlined above under the section Impairment testing, goodwill, trademarks with indefinite useful lives and individual assets are also tested when there is an indication of an impairment need. During the period, intangible assets, attributable to the operating segment Personal Care, were impaired by SEK -54m.

Distribution by operating segment

SEKm	Goodwill			Trademarks			WACC, before tax %		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Personal Care	16,678	17,545	17,029	8,016	8,544	8,524	8.2	8.6	9.8
Consumer Tissue	9,264	9,894	9,625	4,879	5,108	5,016	8.2	8.1	9.4
Professional Hygiene	6,382	7,142	6,899	-	7	6	6.2	7.3	8.1
Total	32,324	34,581	33,553	12,895	13,659	13,546			

TD1:1 Emission allowances

SEKm	2020	2019	2018
Accumulated costs	232	232	91
Accumulated revaluation of surplus	0	0	0
Total	232	232	91
Value, January 1	232	91	71
Emission allowances received	187	174	59
Purchases	30	51	25
Settlement with the government	-206	-84	-68
Translation differences	-11	0	4
Value, December 31	232	232	91

D2. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any impairment. In cases where an investment in foreign currency has been recognized using hedge accounting, the gain/loss from the hedge is recognized as part of the acquisition cost. In major projects the cost of properties and production facilities include costs for running-in and start-up. Borrowing costs are included in the cost of investments exceeding SEK 250m that take more than 12 months to complete. Expenses for repairs and maintenance are expensed directly in profit or loss.

Depreciation and impairment

Land is not subject to depreciation. Buildings, machinery and equipment are depreciated on a straight-line basis over the expected useful lives of

the assets. If, at the balance sheet date, there is an indication that property, plant and equipment has declined in value, impairment testing is carried out.

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

Property, plant and equipment

SEKm	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Accumulated costs	23,004	24,855	23,255	4,052	4,403	4,276	78,399	85,802	80,511	5,320	3,716	4,970
Accumulated depreciation	-10,776	-10,986	-10,010	-599	-649	-599	-48,672	-52,516	-48,983	-	-1	-
Accumulated impairment	-283	-258	-271	-23	-25	-51	-1,401	-1,261	-1,392	-2	-1	-33
Total	11,945	13,611	12,974	3,430	3,729	3,626	28,326	32,025	30,136	5,318	3,714	4,937
Value, January 1	13,611	12,974	12,063	3,729	3,626	3,446	32,025	30,136	28,328	3,714	4,937	4,645
Investments	124	208	102	9	34	22	1,127	1,808	1,601	4,882	3,629	4,950
Sales and disposals	-6	-37	-20	-4	-1	-46	-57	-89	-90	-4	-1	-18
Company acquisitions	28	-	79	9	-	71	42	-	145	-	-	86
Company divestments	-38	-	-	-18	-	-	-73	-81	-	-	-3	-
Reclassifications	235	818	1,134	11	-4	87	2,551	4,045	3,714	-2,844	-5,037	-4,895
Depreciation ¹⁾	-802	-841	-793	-41	-44	-42	-4,444	-4,597	-4,291	-	-	-
Impairment	-42	-6	-23	-	-2	-30	-234	-144	-372	-	-	-3
Reversal of impairment	-	70	-	-	22	-	8	27	-	-	-	-
Translation differences	-1,165	425	432	-265	98	118	-2,619	920	1,101	-430	189	172
Value, December 31	11,945	13,611	12,974	3,430	3,729	3,626	28,326	32,025	30,136	5,318	3,714	4,937

¹⁾ Included primarily in Cost of goods sold.

Total property, plant and equipment

SEKm	2020	2019	2018
Accumulated costs	110,775	118,776	113,012
Accumulated depreciation	-60,047	-64,152	-59,592
Accumulated impairment	-1,709	-1,545	-1,747
Total	49,019	53,079	51,673
Value, January 1	53,079	51,673	48,482
Investments	6,142	5,679	6,675
Sales and disposals	-71	-128	-174
Company acquisitions	79	-	381
Company divestments	-129	-84	-
Reclassifications	-47	-178	40
Depreciation ¹⁾	-5,287	-5,482	-5,126
Impairment	-276	-152	-428
Reversal of impairment	8	119	-
Translation differences	-4,479	1,632	1,823
Value, December 31	49,019	53,079	51,673
TG2:1 Right-of-use assets, net value	4,612	3,821	-
BS Value, December 31 including right-of-use assets	53,631	56,900	51,673

¹⁾ Included primarily in Cost of goods sold.

Impairment losses for the year totaling SEK 276m are related to restructuring measures mainly in Personal Care and Professional Hygiene in Russia and the USA, as well as ongoing measures in Consumer Tissue, primarily in Vinda.

Reversal of impairments totaling SEK 8m is mainly related to previous impairments at production facilities in Consumer Tissue in Spain and France.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 18m (39; 24) and in construction in progress in an amount of SEK 1m (1; 0). The average interest rate used was 3% (4; 5).

Contract obligations relating to the acquisition of property, plant and equipment amounted to SEK 3,131m (3,836; 3,563) at year end.

D3. INVENTORIES

AP ACCOUNTING PRINCIPLES

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

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

Inventories	2020	2019	2018
SEKm			
Raw materials and consumables	5,890	4,749	3,937
Spare parts and supplies	1,783	1,862	1,656
Products in progress	1,343	1,424	1,546
Finished products	7,363	7,717	8,090
Advance payments to suppliers	4	12	5
BS Total	16,383	15,764	15,234

Impairment of inventories amounted to SEK 302m (78; 85), of which SEK 9m (70; 61) was recognized in conjunction with restructuring as an item affecting comparability, refer to Note B3 Operating expenses on page 84.

D4. OTHER CURRENT RECEIVABLES

Other current receivables			
SEKm	2020	2019	2018
VAT receivables	701	702	999
Prepaid expenses and accrued income	529	568	542
Suppliers with debit balance	123	56	43
Receivables for electricity and gas	207	137	134
Receivables from authorities	58	90	75
Derivatives	185	20	324
Other receivables	370	540	482
BS Total	2,173	2,113	2,599

D5. OTHER LIABILITIES

Other liabilities			
SEKm	2020	2019	2018
Other non-current liabilities			
Derivatives	6	42	8
Other non-current liabilities	99	141	63
BS Total	105	183	71
Of which items that fall due for payment later than within five years			
	20	20	17
Other current liabilities			
Derivatives	108	282	35
TD5:1 Accrued expenses and prepaid income	11,592	11,720	10,190
VAT liabilities	1,075	1,042	873
Other operating liabilities	1,770	1,954	1,694
BS Total	14,545	14,998	12,792

TD5:1 Accrued expenses and prepaid income			
SEKm	2020	2019	2018
Bonus and discounts to customers	6,070	6,038	5,269
Accrued vacation pay liability	712	699	689
Accrued social security costs	417	440	394
Other liabilities to personnel	1,325	1,538	967
Other items	3,068	3,005	2,871
Total	11,592	11,720	10,190

D6. OTHER PROVISIONS

AP ACCOUNTING PRINCIPLES

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

Other provisions 2020

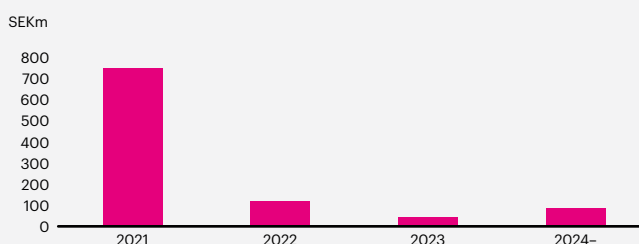
SEKm	Efficiency programs	Environment	Legal disputes	Other	Total
Value, January 1	787	212	316	291	1,606
Provisions	52	208	113	56	429
Utilizations	-381	-208	-10	-97	-696
Reclassifications	-	-	-39	25	-14
Dissolutions	-40	-	-3	-21	-64
Translation differences	-18	-4	-37	-9	-68
Value, December 31	400	208	340	245	1,193
Provisions comprise:					
BS Short-term component					748
BS Long-term component					445

Other provisions, previous periods

SEKm	2019	2018
Value, January 1	3,166	3,028
Provisions	912	1,526
Divestments of Group companies and other operations	-2	-
Utilizations	-1,403	-669
Reclassifications ¹⁾	-949	56
Dissolutions	-157	-853
Translation differences	39	78
Value, December 31	1,606	3,166

¹⁾ The reclassification in 2019 consists primarily of the reclassification of tax risks to tax liability, see Note B5 Income taxes on page 85.

Distribution of other provisions by maturity¹⁾



¹⁾ The timing of provisions totaling SEK 197m cannot be assessed.

Of the Provisions for the period for Environment, SEK 208m pertains to a liability for carbon dioxide emissions, which will be settled in 2021. Provisions for the period for Legal disputes primarily relate to an expanded provision for a matter for which a provision has already been made.

Utilizations for the period concerning Efficiency programs are attributable to restructuring measures at the production facilities of Professional Hygiene and Consumer Tissue and the Group-wide cost-savings program. Utilizations for the period concerning Other provisions mainly relate to the payment of foreign tax of a non-recurring nature on non-current assets outside Sweden.

The provisions recognized at the end of the period attributable to Efficiency programs relate mainly to restructuring measures at production facilities of Professional Hygiene and Consumer Tissue. Provisions for Environment pertain mainly to a liability for carbon dioxide emissions. Provisions for Legal disputes mainly consist of reserves for cases relating to the Andean Community (CAN). Other provisions mainly comprise reserves in Italy in connection with, among other items, grants received for future investment commitments.

E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL**AP ACCOUNTING PRINCIPLES**

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

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

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

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

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

Fair value measurement

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

The fair value of non-current loans measured at prevailing market interest rates is presented in Note E4 Financial liabilities on page 99. The fair value of current financial liabilities and investments is considered to correspond to the carrying amount, since a change in market interest rates does not have a significant effect on market value.

Classification and subsequent recognition

Under IFRS 9 Financial Instruments, financial assets are to be classified on the basis of the company's business model and the purpose of contractual cash flows.

Amortized cost

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

Fair value through comprehensive income

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

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

Fair value through profit or loss

Financial assets that do not fulfill the requirements as stated in the categories described above are to be measured at fair value through profit or loss. Financial assets and liabilities can, on initial recognition, irrevocably and under certain circumstances, be recognized at fair value through profit or loss if this leads to more relevant information. Derivatives are recognized at fair value through profit or loss. During the year, Essity did not recognize any financial assets or liabilities, except for derivatives and liabilities that are part of a hedging relationship, in this category. For more information, refer to Note E6 Derivatives and hedge accounting on page 100.

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized in accordance with the accounting principles stated in Note E6 Derivatives and hedge accounting on page 100.

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

Financial instruments by category and measurement level

SEKm	Note	Measure- ment level	2020	2019	2018
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	90	52	36
Derivatives – Current financial assets	E2	2	450	302	198
Derivatives – Other current receivables	D4	2	31	12	59
Total			571	366	293
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	10,615	13,167	16,083
Current financial liabilities	E4	2	5,038	–	905
Derivatives – Non-current financial liabilities	E4	2	2	95	58
Derivatives – Current financial liabilities	E4	2	610	486	327
Derivatives – Other current liabilities	D5	2	70	48	14
Total			16,335	13,796	17,387
Loan and trade receivables measured at amortized cost					
Non-current financial assets	E2	–	18	20	28
Current financial assets	E2	–	231	155	95
Trade receivables	E3	–	17,825	19,864	18,687
Cash and cash equivalents	E2	–	4,982	2,928	3,008
Total			23,056	22,967	21,818
Financial assets measured at fair value through other comprehensive income					
Non-current financial assets	E2	1	96	96	87
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	24,861	26,796	27,359
Non-current lease liabilities	E4	–	2,724	3,021	–
Current financial liabilities	E4	–	2,206	7,560	9,580
Current lease liabilities	E4	–	807	851	–
Trade payables	–	–	14,791	15,802	15,911
Total			45,389	54,030	52,850
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	534	526	483
Other non-current assets	–	2	79	3	85
Other current receivables	D4	2	154	8	265
Current financial assets	E2	2	312	68	129
Total			1,079	605	962
Other non-current liabilities	D5	2	6	42	8
Current financial liabilities	E4	2	27	86	15
Other current liabilities	D5	2	38	234	21
Total			71	362	44

These financial instruments are measured at fair value, with the exception of loans and trade receivables and financial liabilities measured at amortized cost. According to Essity's assessment, the fair value essentially corresponds to the carrying amount, with the exception of non-current liabilities, the fair value of which is disclosed in Note E4 Financial liabilities on page 99.

Measurement levels

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

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

Financial instruments in other notes to the balance sheet

		2020		2019		2018	
SEKm	Note	Financial instru- ments	Of which deriva- tives	Financial instru- ments	Of which deriva- tives	Financial instru- ments	Of which deriva- tives
Assets							
Financial assets, cash and cash equivalents	E2	6,713	1,386	4,147	948	4,064	846
Other non-current assets		79	79	3	3	85	85
Trade receivables	E3	17,825	–	19,864	–	18,687	–
Other current receivables	D4	185	185	20	20	324	324
Total		24,802	1,650	24,034	971	23,160	1,255
Liabilities							
Financial liabilities	E4	46,890	639	52,062	667	54,327	400
Other non-current liabilities	D5	6	6	42	42	8	8
Trade payables		14,791	–	15,802	–	15,911	–
Other current liabilities	D5	108	108	282	282	35	35
Total		61,795	753	68,188	991	70,281	443

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		
	2020	2019	2018
Non-current financial assets			
Financial assets measured at fair value through other comprehensive income	96	96	87
Financial assets measured at amortized cost			
Loan receivables, other	18	20	28
Derivatives	624	578	519
BS Total	738	694	634
Current financial assets			
Financial assets measured at amortized cost			
Financial assets	165	155	22
Loan receivables, other	66	-	73
Derivatives	762	370	327
BS Total	993	525	422
Cash and cash equivalents			
Cash and bank balances	4,074	2,315	2,611
Current investments <3 months	908	613	397
BS CF Total	4,982	2,928	3,008
Total financial assets, cash and cash equivalents	6,713	4,147	4,064

Financial assets measured at fair value through comprehensive income relate to an equity instrument which was irrevocably classified 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 completion of employment on page 89. 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, 2020 include SEK 2,737m (1,946; 2,260) 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 amount to SEK 1,454m (1,254; 1,045).

E3. TRADE RECEIVABLES

AP ACCOUNTING PRINCIPLES

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.

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.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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.

Trade receivables

SEKm	2020	2019	2018
Trade receivables, gross	18,063	20,177	18,963
Provision for doubtful receivables	-238	-313	-276
BS TE3:1 Total	17,825	19,864	18,687

TE3:1 Analysis of credit risk exposure in trade receivables

SEKm	2020	2019	2018
Trade receivables net after provision for doubtful receivables	17,825	19,864	18,687
Whereof: overdue			
< 30 days	1,316	1,615	1,486
30-90 days	761	775	593
> 90 days	361	404	417
Trade receivables, overdue	2,438	2,794	2,496

Credit risk in trade receivables and provisions for doubtful receivables

Essity's customer structure is dispersed, with customers in many different areas of business. In 2020, Essity's ten largest customers accounted for 22.5% (23.7; 23.6) of Essity's sales. The single largest customer accounted for 2.7% (4.4; 4.4) of sales. Confirmed credit losses on trade receivables in 2020 amounted to 0.02% (0.01; 0.01) of net sales. Of the outstanding trade receivables on the balance sheet date 2020, the ten largest customers accounted for 23.9% (23.2; 24.5). Confirmed credit losses on trade receivables over the past five years amounted to an average of 0.02% (0.02; 0.02) of net sales. Essity's overall assessment, despite the ongoing COVID-19 pandemic, is that the credit risk within the customer segments in the countries where Essity conducts the majority of its sales has not changed materially during 2020; recognized bad debt losses remain at a low level. However, Essity continues to monitor development of GDP, financial stability and unemployment and will increase its provision for doubtful receivables if the situation deteriorates. Only one minor adjustment was therefore made in the collective assessment (see accounting principles and key assessment and assumptions above) regarding the expected impairment requirement for doubtful receivables in the 2020 year-end accounts.

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 723m (1,251; 939). Of this amount, SEK 8m (13; 107) relates to the category trade receivables overdue.

Provision for doubtful receivables

SEKm	2020	2019	2018
Value, January 1	-313	-276	-257
Provision for expected credit losses	-38	-67	-52
Confirmed losses	25	14	15
Decrease due to divestments	22	-	-
Decrease due to reversal of provisions for expected credit losses	31	27	24
Translation differences	35	-11	-6
Value, December 31	-238	-313	-276

The expense for the period for doubtful receivables amounted to SEK -7m (-40; -28).

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

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

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

Financial liabilities			
SEKm	2020	2019	2018
Non-current financial liabilities			
Bond issues	28,486	31,690	34,247
Derivatives	2	95	58
Non-current lease liabilities	2,724	3,021	–
Other non-current loans with maturities > 1 year < 5 years	6,971	7,944	6,884
Other non-current loans with maturities > 5 years	19	329	2,311
BS Total	38,202	43,079	43,500
Current financial liabilities			
Amortization within one year	219	255	347
Bond issues	5,037	–	3,005
Derivatives	637	572	342
Current lease liabilities	807	851	–
Loans with maturities of less than one year	1,833	7,137	6,948
Accrued financial expenses	155	168	185
BS Total¹⁾	8,688	8,983	10,827
Total financial liabilities	46,890	52,062	54,327
Fair value of financial liabilities excluding leases	43,947	49,106	54,434

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

Borrowing

Essity has a Euro Medium Term Note (EMTN) program with a program amount of EUR 6,000m (SEK 60,169m) for issuing bonds in the European capital market. As of December 31, 2020, a nominal EUR 3,440m (3,134; 3,728) was outstanding in public and bilateral issues with a remaining maturity of 3.4 years (3.8; 4.2).

Public bond issues				
Issued ¹⁾	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate, %
Notes EUR 500m	2021	5,037	5,037	0.50
Notes EUR 600m	2022	6,005	6,078	0.63
Notes EUR 500m	2023	5,281	5,330	2.50
Notes EUR 600m	2024	6,000	6,234	1.13
Notes EUR 300m	2025	3,170	3,135	1.13
Notes EUR 500m	2027	4,985	5,373	1.63
Notes EUR 300m	2030	3,045	2,934	0.50
Total		33,523	34,121	

Non-current financial liabilities			
	Carrying amount, SEKm	Fair value, SEKm	
Other non-current loans with maturities > 1 year < 5 years	6,971	7,336	
Other non-current loans with maturities > 5 years	19	19	
Total	6,990	7,355	

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

Commercial paper program ¹⁾	
Program size	Issued SEKm
Commercial paper SEK 15,000m	–
Commercial paper EUR 1,200m	–
Total	–

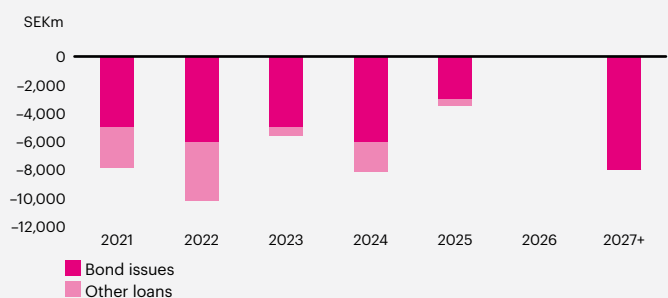
¹⁾ Included in Loans with maturities of less than one year in the Financial liabilities table.

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

Credit facilities					
	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 59m	2024	590	–	590
	EUR 941m	2025	9,438	–	9,438
	EUR 1,000m	2025 ¹⁾	10,028	–	10,028
Total			20,056	–	20,056

¹⁾ The syndicated credit facility expiring in 2025 was extended in January 2021 by EUR 937m until 2026. The remaining EUR 63m falls due in 2025.

Maturity profile of gross debt¹⁾



¹⁾ Gross debt includes accrued interest in the amount of SEK 277m.

After additions for net pension provisions and lease liabilities and with deductions for cash and cash equivalents, interest-bearing receivables and equity instruments, the net debt was SEK 42,688m (50,940; 54,404). For a description of the methods used by Essity to manage its refinancing risk, refer to the Risks and risk management section on page 41.

E5. LIQUIDITY RISK

The table below shows the Group's liquidity risk regarding financial liabilities (including interest payments), net settled derivatives that constitute financial liabilities and negative cash flows from gross settled derivatives. For a description of the methods used by Essity to manage its liquidity risk, refer to the Risks and risk management section on page 41.

Liquidity risk				
SEKm	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
2020				
Loans including interest	7,602	16,590	11,910	8,153
Net settled derivatives	1	1	–	–
Energy derivatives	41	5	–	–
Lease liabilities	818	1,118	675	1,294
Trade payables	14,785	6	–	–
Total	23,247	17,720	12,585	9,447
Gross settled derivatives ¹⁾	59,168	2,135	104	–
2019				
Loans including interest	8,003	18,438	14,325	8,850
Net settled derivatives	0	0	–	–
Energy derivatives	254	42	–	–
Lease liabilities	864	1,213	767	1,520
Trade payables	15,795	7	–	–
Total	24,916	19,700	15,092	10,370
Gross settled derivatives ¹⁾	60,735	1,057	591	–
2018				
Loans including interest	10,998	14,864	13,686	16,975
Net settled derivatives	0	0	0	–
Energy derivatives	22	8	–	–
Trade payables	15,786	125	–	–
Total	26,806	14,997	13,686	16,975
Gross settled derivatives ¹⁾	57,937	2,101	466	–

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

E6. DERIVATIVES AND HEDGE ACCOUNTING

AP ACCOUNTING PRINCIPLES

Accounting for derivatives used for hedging purposes

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

Cash flow hedges

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

Hedges of net investments in foreign operations

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

Fair value hedges

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

Economic hedges

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

Outstanding derivatives

SEKm	Of which			
	Total	Currency ¹⁾	Interest rate	Energy
2020				
Nominal	80,489	62,251	16,514	1,724
Asset	1,650	856	558	236
Liability	753	706	2	45
2019				
Nominal	81,412	62,506	17,224	1,682
Asset	971	412	545	14
Liability	991	695	0	296
2018				
Nominal	80,623	60,744	17,935	1,944
Asset	1,255	370	489	396
Liability	443	412	1	30

¹⁾ Nominal SEK 74,475m (64,183; 69,588) is outstanding before the right of set-off.

Balance sheet

Essity uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how Essity manages these risks, refer to the section on Risk and risk management on page 36. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2020. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category and measurement level on page 97.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2020		
Gross amount	1,710	813
Offsettable amount	-60	-60
Net amount recognized in the balance sheet	1,650	753
ISDA agreements whose transactions are not offset in the balance sheet	-699	-699
Collateral received	-64	-
Net after offsetting in accordance with ISDA agreements	887	54
December 31, 2019		
Gross amount	972	992
Offsettable amount	-1	-1
Net amount recognized in the balance sheet	971	991
ISDA agreements whose transactions are not offset in the balance sheet	-420	-420
Collateral paid	-	-26
Net after offsetting in accordance with ISDA agreements	551	545
December 31, 2018		
Gross amount	1,275	463
Offsettable amount	-20	-20
Net amount recognized in the balance sheet	1,255	443
ISDA agreements whose transactions are not offset in the balance sheet	-347	-347
Collateral received	-98	-
Net after offsetting in accordance with ISDA agreements	810	96

Profit or loss

Hedges pertaining to transaction exposure had an impact of SEK -37m (-16; 92) on operating profit for the period. At year-end, the net market value amounted to SEK -39m (-17; 0). Currency hedges decreased the cost of non-current assets by SEK 2m (increased: 14; increased: 1). At year-end, the net market value amounted to SEK -4m (-3; -1). Energy derivatives had an impact of SEK -451m (-173; 396) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 191m (-282; 366) at year-end. Derivatives impacted net interest items in an amount of SEK -169m (-381; -362). The net market value of outstanding interest rate derivatives amounted to SEK 556m (545; 489) at year-end. For further information relating to financial items, see Note E7 Financial income and expenses on page 103.

Sensitivity analysis

Essity has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2020 using assumptions on market movements that are regarded as reasonably possible in one year's time. If the Swedish krona had unilaterally weakened/strengthened by 5% against all currencies, outstanding financial hedges, trade payables and trade receivables would have decreased/increased profit for the period before tax by SEK 13m (8; 7).

If the Swedish krona had unilaterally weakened/strengthened by 5%, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 1m (0; 0). If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 245m (174; 299). In addition to the earnings impact, equity would have increased/decreased by SEK 124m (90; 136). However, the total energy cost for the Group would have been affected differently if the price risk related to supply contracts was taken into account.

Derivatives with hedge accounting

The various risk management strategies are presented in the Risks and risk management section on page 36. The derivatives to which hedge accounting is applied are presented below. Essity also continuously hedges the transaction exposure and energy price risks for the risks that are recognized in the balance sheet and profit or loss. Hedge accounting is not

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

applied in respect of these risks. For currency derivatives, the revaluation from the risks meets derivatives in the financial positions. For energy derivatives, the result is recognized in profit or loss.

IFRS 9 provides the option of hedging risk components. In 2020, Essity did not utilize this option except for energy, where Essity in the Nordic region hedges the system price, which is a sub-component. The hedging ratio for the various risks for which hedge accounting is prepared is consistently 1:1.

On account of the ongoing Interest Rate Benchmark Reform, Essity has evaluated the potential impact on existing hedging relationships. Essity has a number of fair value hedges that use EURIBOR as basis for the variable interest rate in the derivative. In the event EURIBOR ceases to exist, the hedging relationships are covered by the exemption rules in IFRS 9, thus resulting in no material effects in connection with the transition to a new interest rate benchmark. The nominal amount of the hedging relationships in question is presented in the tables below. Essity is carefully monitoring the developments relating to the Interest Rate Benchmark Reform and the forthcoming changes to IFRS 9 and IFRS 7, which come into effect on January 1, 2021.

Cash flow hedges

Cash flow hedges for currency risk are prepared for transaction exposure, large investments and energy price risks in connection with purchases of electricity and gas. For cash flow hedges, hedges are prepared whereby critical terms match the hedged item. For the cash flow hedges prepared, this means that the change in fair value of the hedging instruments and the change in the hedged item are very highly correlated. Any ineffectiveness could, for example, be due to the time or the amount of the forecast cash

flow mismatching with the cash flow of the derivative. In 2020, SEK 0m (0; 0) was recognized in profit or loss as ineffectiveness concerning the cash flow hedges. Currency derivatives mature until March 2023, while energy derivatives mature until December 2022.

Hedging of net investments

Essity has hedged net investments in a number of selected legal entities in order to achieve the desired currency distribution of net debt relative to assets so that key figures that are important to the company's credit rating can be protected in the long term. The result of hedging positions affected equity by a total of SEK 1,504m (-168; -122) during the year. This result is largely due to hedges of net investments in USD and EUR. In 2020, SEK 0m (0; 0) was recognized in profit or loss as ineffectiveness. The total market value of outstanding hedging transactions at the end of the period was SEK 374m (124; 353). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK -12,854m. Essity's total foreign net investments at year-end amounted to SEK 71,222m. Currency derivatives and loans in foreign currency are used to hedge net investments.

Fair value hedges

For fair value hedges, the hedges have the same nominal amount, maturity dates and fixed interest as the hedged item. Hedge ineffectiveness is attributable, for example, to the various discount curves for the hedging instrument and the hedged item. Hedge ineffectiveness per maturity date is presented in the table below. Ineffectiveness is recognized in financial items under Fair value hedges, unrealized. See Note E7 Financial income and expenses on page 103.

Currency and energy derivatives, SEKm	Line in the Balance sheet	2020		2019		2018	
		Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Currency derivatives – cash flow hedges	Other non-current assets	64	-	-	-	-	-
Currency derivatives – cash flow hedges	Other current receivables	99	3	47	1	270	3
Currency derivatives – cash flow hedges	Other non-current liabilities	62	1	28	0	-	-
Currency derivatives – cash flow hedges	Other current liabilities	185	6	283	4	179	4
Energy derivatives – cash flow hedges	Other non-current assets	559	79	36	3	588	85
Energy derivatives – cash flow hedges	Other current receivables	706	151	68	7	901	262
Energy derivatives – cash flow hedges	Other non-current liabilities	79	5	516	42	128	8
Energy derivatives – cash flow hedges	Other current liabilities	354	33	994	230	281	17
Currency derivatives – hedging of net investments	Non-current financial assets	-	-	-	-	-	-
Currency derivatives – hedging of net investments	Current financial assets	8,904	288	4,499	68	10,470	143
Currency derivatives – hedging of net investments	Non-current financial liabilities	-	-	-	-	-	-
Currency derivatives – hedging of net investments	Current financial liabilities	2,096	27	2,691	86	2,726	15

Interest rate derivatives – hedging of fair value, SEKm

Interest rate derivatives – hedging of fair value, GSRM					Line in the balance sheet		
Maturity date	Nominal amount	Change in fair value, hedged item	Change in fair value, derivatives	Ineffectiveness	Financial assets	Financial liabilities	Variable interest
2020							
Current derivatives							
2021	5,014	12	-10	2	24	-	Euribor 6m +0.5502-0.5527
Non-current derivatives							
2022	68	2	-2	0	1	-	Euribor 3m +0.698
2023	4,011	57	-61	-4	280	-	Euribor 6m +0.7215-0.73165
2025	3,008	-18	18	0	164	-	Euribor 6m +0.514-0.5168
2030	3,008	-57	76	19	89	-	Euribor 6m +0.5077-0.5102
	15,109	-4	21	17	558	-	
2019							
Non-current derivatives							
2021	5,213	-11	11	0	33	-	Euribor 6m +0.5502-0.5527
2022	127	3	-3	0	3	0	Euribor 3m +0.698
2023	4,170	8	-13	-5	343	-	Euribor 6m +0.7215-0.73165
2025	3,128	-71	73	2	147	-	Euribor 6m +0.514-0.5168
	12,638	-71	68	-3	526	0	

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Interest rate derivatives – hedging of fair value, SEKm

Maturity date	Nominal amount	Change in fair value, hedged item	Change in fair value, derivatives	Ineffectiveness	Line in the balance sheet		Variable interest
					Financial assets	Financial liabilities	
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	

Derivatives with hedge accounting¹⁾

SEKm	Asset	Liability	Net	Tax	Hedge reserve after tax	Recirculated before tax	Line in the profit or loss/ balance sheet
2020							
Derivatives with hedge accounting in hedge reserve							
Cash flow hedges							
Energy risk	230	-38	192	-48	144	473	³⁾
Currency risk	3	-7	-4	1	-3	-2	⁴⁾
Total	233	-45	188	-47	141		
Derivatives with hedge accounting without hedge reserve							
Hedges of net investments in foreign operations							
Currency risk ²⁾	344	-32	312				
Fair value hedges							
Interest rate risk	558		558				
Total	1,135	-77	1,058	-47	141		
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		

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 103. 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 2021. With unchanged exchange rates, profit after tax will be affected in an amount of SEK 0m (0; 0). Currency derivatives relating to hedging of the cost of non-current assets mature until March 2023. With unchanged exchange rates, the cost of non-current assets will increase by SEK 3m (increase by 2; increase by 1) after tax. The derivatives intended to hedge energy costs in the Group mature during 2021 and 2022. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 144m (negative 204; positive 245).

E7. FINANCIAL INCOME AND EXPENSES

Financial income and expenses			
SEKm	2020	2019	2018
Result from non-current financial assets			
Dividend	1	1	2
Interest income and similar profit items			
Interest income, investments	107	105	85
Other financial income	0	-	4
IS Total financial income	108	106	91
Interest expenses and similar loss items			
Interest expenses, borrowing	-762	-884	-836
Interest expenses, derivatives	-186	-378	-354
Interest expenses, lease liabilities	-98	-110	-
Fair value hedges, unrealized	17	-3	-8
Other financial expenses	-37	-40	-50
IS Total financial expenses	-1,066	-1,415	-1,248
OCF Total	-958	-1,309	-1,157

Other financial income and expenses include an exchange difference of SEK 0m (-4; 4).

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 87m (116; 123) higher/lower. Sensitivity analysis calculations have been performed on the risk to which Essity was exposed at December 31, 2020 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 41.

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.

Equity totaled SEK 63,342m (62,801; 54,899) at December 31, 2020. Pages 65–66 show the Consolidated statement of change in equity.

The tables below show specifications of reserves and income tax attributable to components in other comprehensive income.

TE8:1 Equity, specification of reserves

SEKm	Revaluation reserve ¹⁾			Hedge reserve ²⁾			Available-for-sale assets			Fair value through other comprehensive income			Translation reserve		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Value, January 1	107	107	107	-206	245	166	-	-	6	8	4	-	6,375	4,647	2,875
Reclassification									-6			6			
Fair value through other comprehensive income										3	6	-5			
Cash flow hedges:															
Result from remeasurement of derivatives recognized in equity				-9	-725	471									
Transferred to profit or loss for the period				473	112	-378									
Translation differences in foreign operations ³⁾				-6	10	6				-	-	2	-7,246	1,859	1,868
Gains/losses from hedges of net investments in foreign operations													1,504	-168	-122
Tax on items recognized directly in/transferred from equity				-109	138	-21				-1	-2	1	-310	37	26
Other comprehensive income for the period, net of tax	-	-	-	349	-465	78	-	-	-6	2	4	4	-6,052	1,728	1,772
Transfer to cost of fixed assets concerning hedged investments, net of tax				-2	14	1									
Value, December 31	107	107	107	141	-206	245	-	-	-	10	8	4	323	6,375	4,647

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

²⁾ See also Note E6 Derivatives and hedge accounting on page 100 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 4m (-178; 0).

E8. EQUITY, CONT.

Total reserves in equity

SEKm	2020	2019	2018
Value, January 1	6,284	5,003	3,154
Reclassification	0	0	0
Fair value through other comprehensive income	3	6	-5
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	-9	-725	471
Transferred to profit or loss for the period	473	112	-378
Translation differences in foreign operations ¹⁾	-7,252	1,869	1,876
Gains/losses from hedges of net investments in foreign operations	1,504	-168	-122
Tax on items recognized directly in/transferred from equity	-420	173	6
Other comprehensive income for the period, net of tax	-5,701	1,267	1,848
Transfer to cost of fixed assets concerning hedged investments, net of tax	-2	14	1
Value, December 31	581	6,284	5,003

¹⁾ Transfer to profit or loss of realized translation difference relating to divested and liquidated companies is included in the amount of SEK 4m (-178; 0).

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

SEKm	2020			2019			2018		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Actuarial gains/losses on defined benefit pension plans	-202	280	78	482	54	536	-1,036	175	-861
Fair value through other comprehensive income	3	-1	2	6	-2	4	-5	1	-4
Cash flow hedges	464	-109	355	-613	138	-475	93	-21	72
Translation differences in foreign operations	-8,092	-	-8,092	2,095	-	2,095	2,080	-	2,080
Other comprehensive income from associated companies	-20	4	-16	-14	4	-10	23	-1	22
Gains/losses from hedges of net investments in foreign operations	1,504	-310	1,194	-168	37	-131	-122	26	-96
Other comprehensive income for the period	-6,343	-136	-6,479	1,788	231	2,019	1,033	180	1,213

At December 31, 2020, the debt/equity ratio amounted to 0.67 (0.81; 0.99). Changes in liabilities and equity are described in the Financial position section on page 35. Essity's target for capital structure is to establish an effective capital structure, while at the same time ensuring long-term access to loan financing. Cash flow in relation to net debt is to be taken into consideration with the aim of maintaining a solid investment grade rating.

Essity has a credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. Essity's financial risk management is described in the Risk and risk management section on page 36. The Essity share section on page 8 outlines Essity's dividend policy, while its capital structure is described in the Objectives, targets and outcomes section on page 22.

F. GROUP STRUCTURE

F1. GROUP COMPANIES

AP ACCOUNTING PRINCIPLES

Group companies

The companies over which Essity has control are consolidated as Group companies. Control means that Essity has sufficient influence to control the relevant activities of the Group company, and that Essity has the right to, and can influence, its variable returns from its participation in the Group company. Most of the Group's companies are wholly owned, which means that Essity has control over the companies. Essity owns 52% of Vinda, 50% of Familia and 49% of Unicharm Mölnlycke, over which Essity also considers itself in control.

Non-controlling interests

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

List of major Group companies

The Group's participations in major Group companies at December 31, 2020 are presented below. The following selection of wholly owned Group companies or Group companies with significant non-controlling interests includes companies with external and internal sales in excess of SEK 500m in 2020.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2020	Share of equity at December 31, 2019	Share of equity at December 31, 2018
Essity France SAS	509,395,109	Saint-Ouen, France	100	100	100
Essity Holding Netherlands B.V.	30-135 724	Zeist, Netherlands	100	100	100
Essity UK Ltd.	577,116	Dunstable, UK	100	100	100
Essity Professional Hygiene North America LLC	58-2494137	Delaware, USA	100	100	100
Vinda International Holdings Ltd ¹⁾	90235	Hong Kong, China	52	52	52
Essity Operations Wausau LLC	41-2218501	Wisconsin, USA	100	100	100
Essity Germany GmbH	HRB 713 332	Mannheim, Germany	100	100	100
Essity Hygiene and Health AB	556007-2356	Gothenburg, Sweden	100	100	100
Essity Spain S.L.	B28451383	Puigpelat, Spain	100	100	100
Essity Higiene y Salud Mexico, S.A. de C.V.	SCM-931101-355	Mexico City, Mexico	100	100	100
Productos Familia S.A. Colombia ¹⁾	8909001619	Medellin, Colombia	50	50	50
Productos Familia del Sancela Ecuador S.A. ¹⁾	179131437900	Quito, Ecuador	50	50	50
Productos Sancela del Peru ¹⁾	20255172884	Lima, Peru	50	50	50
Essity Italy S.p.A.	3,318,780,966	Altopascio, Italy	100	100	100
Essity LLC	1024700877200	Moscow, Russia	100	100	100
Essity Poland Sp.z o.o.	KRS No. 0000427360	Warsaw, Poland	100	100	100
Essity Austria GmbH	FN 49537 z	Vienna, Austria	100	100	100
Essity Belgium SA-NV	BE0405.681.516	Stembert, Belgium	100	100	100
Essity Professional Hygiene Germany GmbH	HRB 710 878	Mannheim, Germany	100	100	100
Essity Canada Inc.	421984	Ontario, Canada	100	100	100
OY Essity Finland AB	0165027-5	Espoo, Finland	100	100	100
Essity HMS North America Inc.	23-3036384	Delaware, USA	100	100	100
Essity Norway AS	915,620,019	Oslo, Norway	100	100	100
Essity Switzerland AG	CH-020.3.917.992-8	Schenkon, Switzerland	100	100	100
Essity Denmark A/S	DK20 638 613	Allerød, Denmark	100	100	100
Essity Chile SA	94.282.000-3	Santiago de Chile, Chile	100	100	100
Essity Hungary Kft	01-09-716945	Budapest, Hungary	100	100	100
Uni-Charm Mölnlycke KK	0104-01-046146	Tokyo, Japan	49	49	49
Essity Czech Republic s.r.o.	485 36 466	Prague, Czech Republic	100	100	100
Essity Operations Allo SL	B31235260	Allo, Spain	100	100	100
Essity Slovakia s.r.o.	36590941	Gemerska Horská, Slovakia	100	100	100
Essity Operations Mainz-Kostheim GmbH	HRB 5301	Mainz-Kostheim, Germany	100	100	100
Essity Operations France SAS	702,055,187	Saint-Ouen, France	100	100	100
Essity Operations Mannheim GmbH	HRB 3248	Mannheim, Germany	100	100	100
Essity Operations Neuss GmbH	HRB 14343	Neuss, Germany	100	100	100
Essity Operations Poland Sp.z o.o.	KRS No. 0000086815	Olawa, Poland	100	100	100
Essity Operations Le Theil SAS	509,599,619	Saint-Ouen, France	100	100	100
Essity Operations Manchester Ltd	4119442	Dunstable, UK	100	100	100
BSN medical GmbH	HRB 124 187	Hamburg, Germany	100	100	100
BSN Radiante SAS	652,880,519	Le Mans, France	100	100	100
BSN Medical Inc.	3269728	North Carolina, USA	100	100	100
BSN-Jobst GmbH	HRB 3482	Emmerich, Germany	100	100	100
Essity Hijyen Ürünleri Sanayi ve Ticaret A.Ş.	640954	Istanbul, Turkey	100	100	100
Essity Centroamérica S.A.	3-101-211115	San José, Costa Rica	100	100	100
Essity do Brasil Indústria e Comércio Ltda.	72.899.016/0001-99	Jarinu, Brazil	100	100	100
Essity Ireland Ltd.	184359	Dublin, Ireland	100	100	100
Essity Distribution B.V.	75490080	Amsterdam, Netherlands	100	100	100

¹⁾ Essity has a small number of jointly owned Group companies with significant non-controlling interests, see Note F2 on page 106.

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

Vinda

Vinda International Holdings Ltd. (Vinda) is one of China's largest hygiene companies and listed on the Hong Kong stock exchange. Essity's holding in Vinda amounts to 52%. Vinda's market capitalization on the Hong Kong stock exchange was SEK 26,768m (20,266; 16,868) at the end of the period.

Familia

Productos Familia S.A., Colombia (Familia) is 50% owned by Essity and the remaining shares are primarily owned by the Gomez family. Essity is deemed to have a controlling influence of Familia since it has control over the activities with the most significant impact on Familia's return. Familia operates in

the South American market and sells Personal Care, Consumer Tissue and Professional Hygiene products.

Financial information

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

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

Group companies with significant non-controlling interests, 100% of operations¹⁾

SEKm	Vinda			Familia		
	2020	2019	2018	2020	2019	2018
Condensed income statement						
Net sales	19,521	19,355	16,543	6,950	7,603	7,047
Operating profit before amortization of acquisition-related intangible assets	2,980	1,889	1,133	1,170 ²⁾	1,042 ²⁾	729 ²⁾
Operating profit	2,900	1,882	1,127	1,162 ²⁾	1,032 ²⁾	947 ²⁾
Profit for the period	2,223	1,364	720	819	719	648
of which attributable to owners of the Parent company	1,151	709	374	410	371	334
Other comprehensive income for the period	-60	62	-13	-803	191	-39
of which attributable to owners of the Parent company	-31	32	-7	-409	86	-78
Comprehensive income for the period	2,163	1,426	707	16	910	609
of which attributable to owners of the Parent company	1,120	741	367	1	457	256
of which attributable to non-controlling interests	1,043	685	340	15	453	353
Dividend to non-controlling interests	212	146	125	187	151	227
Condensed balance sheet						
Non-current assets	17,362	20,556	19,834	3,217	3,861	3,231
Current assets	8,799	7,043	6,552	3,466	3,616	3,101
Total	26,161	27,599	26,386	6,683	7,477	6,332
Equity attributable to owners of the Parent company	8,434	9,110	8,373	2,094	2,281	1,975
Equity attributable to non-controlling interests	5,941	6,397	5,753	2,018	2,190	1,888
Non-current liabilities	3,519	5,399	5,799	802	1,080	811
Current liabilities	8,267	6,693	6,461	1,769	1,926	1,658
Total	26,161	27,599	26,386	6,683	7,477	6,332
Cash flow from operating activities	2,371	3,031	1,474	1,274	841 ³⁾	786 ³⁾
Cash flow from investing activities	-2,041	-1,535	-1,310	-253	-254 ³⁾	-892 ³⁾
Cash flow from financing activities	-37	-1,625	-63	-468	-460 ³⁾	-233 ³⁾
Cash flow for the period	293	-129	101	553	126³⁾	-339³⁾

¹⁾ For more information about the companies, refer to the list of major Group companies on page 105.

²⁾ For Familia, items affecting comparability in the amount of SEK -m (-22; -38) are included. Amounts for 2019 and 2018 have been adjusted.

³⁾ Amounts for Familia regarding 2019 and 2018 have been adjusted.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES

ACCOUNTING PRINCIPLES

Joint arrangements

Essity classifies its joint arrangements as joint ventures or joint operations, which are presented in Note F4 Joint operations on page 108.

Joint ventures

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

Associated companies

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

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

F3. JOINT VENTURES AND ASSOCIATED COMPANIES, CONT.

Carrying amounts of joint ventures and associated companies

SEKm	2020	2019	2018
Joint ventures			
Value, January 1	181	171	144
Net increase in joint ventures ¹⁾	17	8	19
Translation differences	-9	2	8
Value, December 31	189	181	171
Associated companies			
Value, January 1	684	606	918
Company acquisitions	-	3	-
Company divestments	-	-	-3
Net change in associated companies ¹⁾	1	43	-21
Impairment of associated companies	-	-	-278
Reclassification between associated companies and Group companies	-	-	-6
Translation differences	-27	32	-4
Value, December 31	658	684	606
BS TF3:1 Value, December 31, joint ventures and associated companies	847	865	777

¹⁾ Net increase for the period includes the Group's share of the profit after tax of joint ventures and associated companies, as well as items recognized directly in equity (both after deductions for any non-controlling interests). In addition, an adjustment is included for dividends received during the period, which amounted to SEK 3m (8; 7) for joint ventures and SEK 28m (-; 79) for associated companies.

Joint ventures and associated companies

Asaleo Care

Asaleo Care Ltd (Asaleo Care) manufactures and markets Consumer Tissue, Professional Hygiene and Personal Care products. Essity has licensed its Tork and TENA brands to Asaleo Care for sale in Australia, New Zealand and Fiji. Essity's share of Asaleo Care amounts to 36%. In 2018, the company recognized an impairment loss of AUD 148.5m relating to assets in the Tissue business in Australia and the Personal Care business in New Zealand. During 2019, the company divested Consumer Tissue operations in Australia. In 2020, the company discontinued the Baby Care operations in New Zealand. Essity has recognized the effects of these transactions as items affecting comparability, see Note B3 on page 84.

Bunzl & Biach

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

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

SEKm	Joint ventures			Associated companies			Total		
	Bunzl & Biach			Asaleo Care			2020	2019	2018
	2020	2019	2018	2020	2019 ¹⁾	2018			
Condensed income statement									
Net sales	1,134	1,424	1,471	2,655	2,795	2,645	3,789	4,219	4,116
Depreciation/amortization	-14	-13	-13	-171	-168	-169	-185	-181	-182
Operating profit	34	30	47	390	346	126	424	376	173
Interest income	-	-	-	1	3	3	1	3	3
Interest expenses	-	-	-	-52	-80	-98	-52	-80	-98
Other financial items	-	-	1	-1	-4	-3	-1	-4	-2
Tax expense	-7	-9	-14	-97	-73	-23	-104	-82	-37
Profit for the period, continuing operations	27	21	34	241	192	5	268	213	39
Profit/loss for the period, discontinued operations	-	-	-	-37	-9	-710	-37	-9	-710
Profit/loss for the period	27	21	34	204	183	-705	231	204	-671
Other comprehensive income for the period	-	-	-	-44	-13	63	-44	-13	63
Comprehensive income for the period	27	21	34	160	170	-642	187	191	-608
Condensed balance sheet									
Non-current assets	160	163	147	1,929	2,041	1,728	2,089	2,204	1,875
Cash and cash equivalents	64	31	12	345	216	426	409	247	438
Other current assets	174	167	238	690	969	885	864	1,136	1,123
Assets held for sale	-	-	-	-	-	1,131	-	-	1,131
Total assets	398	361	397	2,964	3,226	4,170	3,362	3,587	4,567
Non-current financial liabilities	90	69	118	932	1,114	2,061	1,022	1,183	2,179
Other non-current liabilities	63	69	67	206	363	131	269	432	198
Current financial liabilities	-	-	-	48	9	4	48	9	4
Other current liabilities	26	31	34	544	513	639	570	544	673
Liabilities directly linked to assets held for sale	-	-	-	-	-	294	-	-	294
Total liabilities	179	169	219	1,730	1,999	3,129	1,909	2,168	3,348
Net assets	219	192	178	1,234	1,227	1,041	1,453	1,419	1,219
Group share of net assets	107	94	87	446	444	376	553	538	463
Surplus value	69	74	71	174	191	187	243	265	258
Carrying amount of the companies	176	168	158	620	635	563	796	803	721
Carrying amount of other joint ventures	13	13	13	-	-	-	13	13	13
Carrying amount of other associated companies	-	-	-	38	49	43	38	49	43
BS TF3:2 Carrying amount of joint ventures and associated companies	189	181	171	658	684	606	847	865	777
Market value, December 31				4,690	3,745	3,144			

¹⁾ Amount relating to 2019 has been adjusted with respect to the allocation between short and long-term liabilities and depreciation/amortization.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES, CONT.

TF3:2 Carrying amounts of joint ventures and associated companies

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2020, %	Share of equity at December 31, 2019, %	Share of equity at December 31, 2018, %	Carrying amount December 31, 2020, SEKm	Carrying amount December 31, 2019, SEKm	Carrying amount December 31, 2018, SEKm
Joint ventures								
Bunzl & Biach GmbH	FN79555v	Vienna, Austria	49	49	49	176	168	158
Other						13	13	13
Associated companies								
Asaleo Care Ltd	61 154 461 300	Melbourne, Australia	36	36	36	620	635	563
Other						38	49	43
BS TF3:1 Carrying amount, December 31						847	865	777

F4. JOINT OPERATIONS

AP ACCOUNTING PRINCIPLES

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

Measurement of acquired assets and liabilities according to the proportional method is carried out in the same way as for Group companies. Essity recognizes its proportional share of the company's assets, liabilities, income and expenses in its financial statements.

Joint operations

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2020	Share of equity at December 31, 2019	Share of equity at December 31, 2018
Uni-Charm Mölnlycke BV.	02-330 631	Hoogezaand, 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 Hoogezaand in the Netherlands, Venio in Russia and Delaware in the USA. Uni-Charm Russia was divested in December 2020.

ProNARO

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

Nokianvirran Energia

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

F5. SHARES AND PARTICIPATIONS

AP ACCOUNTING PRINCIPLES

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

Shares and participations

SEKm	2020	2019	2018
Value, January 1	8	29	32
Increase through acquisitions	-	-	4
Divestments	-1	-14	-8
Other reclassifications	-	-7	-
Translation differences	-	-	1
BS Value, December 31	7	8	29

F6. ACQUISITIONS AND DIVESTMENTS OF GROUP COMPANIES AND OTHER OPERATIONS

AP ACCOUNTING PRINCIPLES

Acquisition of Group companies and other operations

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

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

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

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

Non-controlling interests

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

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

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

Acquisitions in 2020

On February 27, 2020, it was announced that an agreement had been signed to acquire 75% of the Swedish medical solutions company ABIGO Medical AB. ABIGO Medical AB develops, manufactures and markets products including the Sorbact® technology, which is a clinically established innovation for advanced wound care. The purchase price for the shares amounts to SEK 674m, and takeover of net debt to SEK 6m. The transaction, which was subject to the customary regulatory approvals, was finalized on April 30, 2020. The purchase price allocation has been established in the last quarter of 2020. Goodwill is justified since ABIGO Medical AB was already an important partner and supplier to Essity prior to the acquisition, with Essity already using Sorbact® in its wound care products to prevent and treat infections. The company has about 170 employees and net sales in 2019 amounted to SEK 403m.

Since the acquisition, ABIGO Medical AB's recognized net sales amounted to SEK 163m, adjusted EBITDA to SEK 6m and adjusted EBITA to SEK -3m.

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

On April 1, 2020, Essity acquired 100% of the shares in Novioscan B.V., a Dutch company that develops a wearable ultrasound technology that monitors the bladder and enables continence control. The purchase price for the shares was EUR 4m and the takeover of net debt was EUR 3m. The company has ten employees. Net sales for 2019 and for the last three quarters of 2020 were negligible in relation to those of the Essity Group. The purchase price allocation indicated goodwill of SEK 71m. The purchase price allocation has been established in the last quarter of 2020.

Transaction costs for both acquisitions amounted to SEK 7m and are recognized in items affecting comparability in profit or loss.

Acquisitions in 2019

Other than a minor acquisition of the associate China-Euro Healthcare Management of SEK 3m, no new acquisitions were carried out. Payments pertaining to earlier acquisitions mainly concern the final settlement of SEK 129m after the acquisition price was finalized for the compulsory redemption of shares in Essity Hygiene Products SE in Germany, former

PWA, most of which was recognized as a liability in 2013. In addition to this, earn-out payments of SEK 11m were paid in accordance with the conditions of the purchase agreement from the acquisition of Sensassure in Canada in 2016.

Acquisitions in 2018

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

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

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

Acquisition of Group companies and other operations

The table below shows the fair value of acquired net assets recognized on the acquisition date, recognized goodwill and the effect on the Group's cash flow statements.

Acquisition balance sheets			
SEKm	2020	2019	2018
Intangible assets	236	-	77
Property, plant and equipment	92	-	381
Other non-current assets	-	3	1
Operating assets	184	-	313
Cash and cash equivalents	47	-	26
Provisions and other non-current liabilities	-69	-	-45
Net debt excl. cash and cash equivalents	-79	-	-233
Operating liabilities	-76	-	-134
Fair value of net assets	335	3	386
Goodwill	603	-	311
Non-transferred consideration, recognized as a liability	-225	-	-
Consolidated value of share in associated companies	-	-	-8
Revaluation of previously owned shares in associated companies	-	-	-225
Non-controlling interests	1	-	-
Acquisition of non-controlling interests recognized in equity attributable to owners of the Parent company	1	-	-
Consideration transferred	715	3	464
Consideration transferred	-715	-3	-464
Earn-out payment	-	-22	-
Settled debt pertaining to acquisitions in earlier years	-	-118	-23
Cash and cash equivalents in acquired companies	47	-	26
CF Effect on Group's cash and cash equivalents, acquisitions of Group companies and other operations	-668	-143	-461
of which recognized as acquisitions of holdings in investing activities	-668	-143	-461
Acquired net debt excl. cash and cash equivalents	-79	-	-233
OCF Acquisitions of Group companies and other operations during the period, including net debt assumed	-747	-143	-694

Divestments of Group companies and other operations

In December 2020, Essity divested its 49% stake in Sancella Tunisia to the other owner Sotupa. Sancella Tunisia offers a range of Essity's products and brands in Tunisia, Algeria, Morocco, and Libya. Essity will retain a presence on these markets through license and distribution agreements. In 2019, Sancella Tunisia reported net sales of SEK 575m. The divestment gave rise to a capital gain of SEK 46m excluding the reclassification of realized translation differences of SEK -17m.

In December 2020, Essity divested part of its Baby Care operation in Russia, giving rise to a capital gain of SEK 24m excluding the reclassification of realized translation differences of SEK -11m. In addition, a previously shut-down operation in Morocco and India was concluded and a minor operation included in the Abigo acquisition was divested with a capital loss of SEK 5m excluding the reclassification of realized positive translation differences of SEK 33m.

The total capital gain for all divestments amounted to SEK 65m excluding reclassification of realized translation differences. Including the reclassification of realized positive translation differences of SEK 4m for divested and liquidated Group companies, the net gain amounts to SEK 69m.

In 2019, Essity divested its holding in the jointly owned company SCA Yildiz in Turkey and a minor operation in Medical Solutions in Brazil.

No divestments were carried out in 2018. Gain/losses and cash flow relate to earn-out payments for previously divested companies primarily in the US.

All earnings were recognized in items affecting comparability in profit or loss.

Assets and liabilities included in divestments of Group companies and other operations

SEKm	2020	2019	2018
Intangible assets	38	59	-
Property, plant and equipment	129	130	-
Other non-current assets	24	1	-
Operating assets	322	93	-
Cash and cash equivalents	38	0	-
Net debt excl. cash and cash equivalents	-284	-215	-
Other non-current liabilities	-	-7	-
Operating liabilities	-268	-87	-
Non-controlling interests	57	27	-
Gain/loss on sale ¹⁾	65	19	68
Compensation received	121	20	68
Deduct:			
Receivable for unpaid purchase consideration	-	-15	-
Financial receivable for unpaid purchase consideration	-18	-	-
Cash and cash equivalents in divested companies	-38	-	-
CF Impact on Group's cash and cash equivalents, divestments of Group companies and other operations	65	5	68
Add:			
Financial receivable for unpaid purchase consideration	18	-	-
Divested net debt excl. cash and cash equivalents	284	215	-
OCF Divestments of Group companies and other operations during the period, including net debt transferred and financial receivable for unpaid purchase consideration	367	220	68

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

G1. NON-CURRENT ASSETS HELD FOR SALE

AP ACCOUNTING PRINCIPLES

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

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

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

Non-current assets held for sale and discontinued operations

SEKm	2020	2019	2018
Buildings	–	28	31
Land	–	14	24
Machinery and equipment	–	–	14
BS Total	–	42	69

Non-current assets held for sale are attributable to:

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

G2. LEASES

AP ACCOUNTING PRINCIPLES

When a contract is signed it is assessed, if the contract is or contains a lease. A contract is or contains a lease if:

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

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

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

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

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

The right-of-use asset is recognized in the balance sheet under the heading Property, plant and equipment and is depreciated on a straight-line basis over the shorter period of the asset's anticipated useful life and the lease term. The lease term is assessed on the basis of the length of the underlying contract taking into consideration the cancellation and renewal options.

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

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

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

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

G2. LEASES, CONT.

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

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

SEKm	Right-of-use assets				Lease liabilities
	Properties	Vehicles	Other	Total	
Value, January 1, 2020	3,446	358	17	3,821	3,872
Additional right-of-use assets, net	630	176	2	808	808
Leases included in acquisitions	9	4	–	13	13
Reclassification	1,206	–	–	1,206	–
Depreciation	–706	–210	–6	–922	
Interest expenses					98
Payments					–1,014
Translation differences	–284	–29	–1	–314	–246
Value, December 31, 2020	4,301	299	12	4,612	3,531

In addition to the expenses in the table above, Essity recognized SEK 286m (255) relating to costs for short-term leases, leases of low-value assets and variable lease payments. The total earnings impact of leases, including depreciation and interest expenses, was SEK 1,306m (1,249) in 2020. Lease payments totaled SEK 1,300m (1,203).

The maturity structure concerning undiscounted future lease payments during future lease terms is presented in Note E5 Liquidity risk on page 99.

Essity has entered into binding leases regarding office properties where the lease term has yet to begin, future lease payments for these contracts are SEK 53m distributed over 7 years.

In 2020, leases for land were reclassified from other intangible assets to right-of-use asset in the amount of SEK 1,206m.

SEKm	Right-of-use assets				Lease liabilities
	Properties	Vehicles	Other	Total	
Value, January 1, 2019	3,357	410	14	3,781	3,786
Additional right-of-use assets, net	716	159	10	885	885
Leases included in divestments	–46	–	–	–46	–46
Depreciation	–656	–221	–7	–884	
Interest expenses					110
Payments					–948
Translation differences	75	10	0	85	85
Value, December 31, 2019	3,446	358	17	3,821	3,872

G3. CONTINGENT LIABILITIES AND PLEDGED ASSETS

AP ACCOUNTING PRINCIPLES

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

Contingent liabilities			
SEKm	2020	2019	2018
Guarantees for associated companies	1	1	3
customers and others	47	45	44
Other contingent liabilities	39	50	333
Total	87	96	380

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

Pledged assets			Total		
SEKm	Pledged assets related to financial liabilities	Other	2020	2019	2018
Real estate mortgages	300	–	300	21	27
Chattel mortgages	103	–	103	39	34
Other	49	234	283	284	277
Total	452	234	686	344	338

Liabilities for which some of these assets were pledged as collateral amounted to SEK 302m (0; 0).

G4. TRANSACTIONS WITH RELATED PARTIES

Essity owns 36% of Asaleo Care Ltd, listed on the stock market in Australia (ASX). Sales to Asaleo Care mainly concern products in Professional Hygiene and Incontinence Products. Transactions and dealings are outlined in table **TG4:1** below.

Essity owns 49% of Bunzl & Biach GmbH. Purchases from Bunzl & Biach relate mainly to raw materials in the form of recovered paper. Transactions and dealings are outlined in table **TG4:2** below.

TG4:1 Transactions and dealings with associated companies, Asaleo Care			
SEKm	2020	2019	2018
Sales	396	424	448
Purchases	–	–	8
Other income	28	36	41
Trade receivables	64	52	110
Trade payables	–	–	0

TG4:2 Transactions and dealings with joint ventures, Bunzl & Biach			
SEKm	2020	2019	2018
Purchases	260	319	316
Trade payables	22	23	57

Financial statements, Parent company

Income statement **IS**

SEKm	Note	2020	2019
Administrative expenses		-705	-663
Other operating income		265	209
Operating loss	PC2	-440	-454
Financial items	PC10		
Result from participations in Group companies		4,170	5,445
Interest income and similar profit items		231	277
Interest expenses and similar loss items		-1,356	-1,170
Total financial items		3,045	4,552
Profit after financial items		2,605	4,098
Appropriations	PC4	-1	-3
Income taxes	PC4	32	27
Profit for the period		2,636	4,122

Statement of comprehensive income

SEKm	2020	2019
Profit for the period	2,636	4,122
Other comprehensive income	-	-
Total comprehensive income	2,636	4,122

Cash flow statement **CF**

SEKm	2020	2019
Operating activities		
Profit after financial items	2,605	4,098
Adjustment for non-cash items T:1	-1,244	536
Paid tax	0	-7
Cash flow from operating activities before changes in working capital	1,361	4,627
Change in operating receivables	-383	650
Change in operating liabilities ¹⁾	278	-71
Cash flow from operating activities	1,256	5,206
Investing activities		
Acquisition of subsidiaries	-	-826
Acquisition of fixed assets	-1	-14
Cash flow from investing activities	-1	-840
Financing activities		
Proceeds from borrowings	6,305	4,265
Repayment of borrowings	-3,171	-4,592
Dividend paid	-4,389	-4,039
Cash flow from financing activities	-1,255	-4,366
Cash flow for the period	0	0
Cash and cash equivalents, January 1	0	0
Cash and cash equivalents, December 31 ²⁾	0	0

T:1 Adjustment for non-cash items

	2020	2019
Depreciation of fixed assets	3	2
Change in accrued items	-1,238	549
Payments relating to efficiency program already recognized	0	-3
Change in provisions	-9	-12
Total	-1,244	536

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

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

Supplementary disclosures

Interest and dividends paid and received	2020	2019
Dividends received	2,586	4,044
Group contribution received	1,466	2,145
Group contribution paid	-57	-
Interest paid	-1,340	-1,112
Interest received	212	232
Total	2,867	5,309

Change in liabilities attributable to financing activities

SEKm	Value, January 1	Cash flow	Translation difference	Value, December 31
Non-current interest-bearing liabilities	36,386	-3,019	-1,657	31,710
Current interest-bearing liabilities	5,022	-152	143	5,013
Current liabilities to Group companies	44,580	6,311	-1	50,890
Current receivables from Group companies	-	-6	-	-6
Total	85,988	3,134	-1,515	87,607

Balance sheet **BS**

SEKm	Note	2020	2019
Assets			
Non-current assets			
Capitalized development costs		0	0
Intangible assets	PC5	0	0
Machinery and equipment		14	16
Property, plant and equipment	PC6	14	16
Participations in subsidiaries	PC7	175,447	175,448
Receivables from Group companies	PC8	542	545
Other non-current receivables		234	227
Deferred tax assets	PC4	178	132
Financial non-current assets		176,401	176,352
Total non-current assets		176,415	176,368
Current assets			
Receivables from Group companies	PC8	2,108	1,762
Current tax assets	PC4	-	11
Other current receivables	PC9	32	21
Total current assets		2,140	1,794
Total assets		178,555	178,162
Equity, provisions and liabilities			
Equity	PC12		
Share capital		2,350	2,350
Statutory reserve		0	0
Total restricted equity		2,350	2,350
Retained earnings		83,553	83,820
Profit for the period		2,636	4,122
Total non-restricted equity		86,189	87,942
Total equity		88,539	90,292
Untaxed reserves	PC4	5	4
Provisions			
Provisions for pensions	PC3	872	875
Other provisions		2	2
Total provisions		874	877
Non-current liabilities			
Non-current interest-bearing liabilities	PC10	31,710	36,386
Total non-current liabilities		31,710	36,386
Current liabilities			
Liabilities to Group companies	PC8	51,910	45,054
Current tax liabilities	PC4	3	-
Current interest-bearing liabilities	PC10	5,013	5,022
Accounts payables		20	16
Other current liabilities	PC11	481	511
Total current liabilities		57,427	50,603
Total equity, provisions and liabilities		178,555	178,162

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, 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
Profit for the period			2,636	2,636
Dividend, SEK 6.25 per share			-4,389	-4,389
Equity at December 31, 2020	2,350	0	86,189	88,539

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, 2020 related to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures. Temporary relief concerning rent concessions in IFRS 16 Leases was introduced for fiscal years commencing June 1, 2020 though early adoption is permitted.

PC2. OPERATING PROFIT/LOSS

Operating profit/loss by type of cost

SEKm	Note	2020	2019
Other operating income		265	209
Other external costs		-373	-302
Personnel and Board costs		-329	-359
Depreciation of equipment	PC6	-3	-2
IS Total		-440	-454

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	2020	2019
EY		
Audit assignments	-11	-13
Auditing activities other than the audit assignment	0	0
Tax consultancy services	0	0
Other assignments	-1	-2
Total	-12	-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	2020	2019
Within 1 year	31	31
Between 2 and 5 years	116	117
Later than 5 years	114	142
Total	261	290

Cost for the period for leasing of assets amounted to SEK -33m (-26). Leased assets comprise means of transportation and office premises.

PC3. PERSONNEL AND BOARD COSTS

Salaries and remuneration

SEKm	2020	2019
Board of Directors ¹⁾ , President, Executive Vice President and senior executives (4 (4))	-63	-77
of which variable remuneration	-15	-35
Other employees	-125	-137
Total	-188	-214

¹⁾ Board fees decided by the Annual General Meeting amounted to SEK -9m (-9). For further information, see Notes C1-C4 on pages 87-91.

Social security costs

SEKm	2020	2019
Total social security costs	-136	-141
of which pension costs ¹⁾	-78	-75

¹⁾ Of the Parent company's pension costs, SEK -17m (-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 71m (59).

Pension costs

SEKm	2020	2019
Self-administered pension plans		
Costs excluding interest expense	-50	-52
Interest expense (recognized in personnel costs)	-2	-6
Sub-total	-52	-58
Retirement through insurance		
Insurance premiums	-22	-21
Other	16	23
Sub-total	-58	-56
Policyholder tax	0	0
Special payroll tax on pension costs	-16	-16
Cost of credit insurance, etc.	-4	-3
Pension costs for the period	-78	-75

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK -2m (-2). Premiums for 2021 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 -5m (-4).

PC3. PERSONNEL AND BOARD COSTS, CONT.

Average number of employees

	2020	2019
Sweden	106	106
of whom women, %	54	52

Breakdown of employees by age groups, %

2020	21-30 years	31-40 years	41-50 years	51-60 years	61+ years
	3	22	37	32	6

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

Provisions for pensions

AP ACCOUNTING PRINCIPLES

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

PRI Pensions

Pension liabilities pertaining to PRI pensions have been secured through a common Swedish Essity pension fund. The market value of the Parent company's portion of the foundation's assets at December 31, 2020, amounted to SEK 267m (236). In 2020, compensation was received in the amount of SEK 6m (6). The capital value of the pension obligations at December 31, 2020 amounted to SEK 182m (171). Pension payments of SEK -6m (-6) were made in 2020. In 2020, the assets exceeded pension obligations by SEK 85m (65).

Other pension obligations

The Group's Note C2 Remuneration of senior executives on page 87 describes the other defined benefit pension plans of the Parent company. The table below shows the change between the years.

Capital value of pension obligations relating to self-administered pension plans

SEKm	2020	2019
Value, January 1	875	873
Costs excluding interest expense	50	52
Interest expense (recognized in personnel costs)	2	6
Payment of pensions	-55	-56
BS Value, December 31	872	875

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 0.3% (0.7). The defined benefit obligations are calculated based on salary levels valid on the respective balance sheet dates. Next year's expected payments for the above defined benefit pension plans amount to SEK 53m. Part of the pension obligations are covered by endowment insurances. The endowment insurances are reported as other non-current receivables in the balance sheet.

PC4. INCOME TAXES

AP ACCOUNTING PRINCIPLES

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

Tax expense

Tax expense (+), tax income (-)

SEKm	2020	2019
Deferred tax	-46	-27
Current tax	14	0
IS Total	-32	-27

Explanation of tax expense

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

	2020		2019	
Reconciliation	SEKm	%	SEKm	%
IS Profit before tax	2,604		4,095	
IS Tax expense/income	-32	-1.2	-27	-0.7
Expected tax	557	21.4	876	21.4
Difference	-589	-22.6	-903	-22.1

The difference is due to:

	2020	%	2019	%
Taxes related to prior periods	0	0.0	4	0.0
Non-taxable dividends from subsidiaries	-555	-21.3	-865	-21.1
Non-taxable Group contributions from Group companies ¹⁾	-283	-10.9	-174	-4.2
Non-deductible interest expenses	234	9.0	129	3.1
Other non-taxable/non-deductible items	15	0.6	3	0.1
Changed tax rate	0	0.0	0	0.0
Total	-589	-22.6	-903	-22.1

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

The Parent company participates in the Group's tax pooling arrangement. Group contributions paid were treated as a tax deductible expense and received Group contributions were treated as non-taxable revenue. The net of paid and received Group contributions amounts to 21.4% (21.4) and is the amount of the company's tax cost for the Group. In addition, the Parent company has received Group contributions from another Swedish Group company, part of which was accounted for as non-taxable income in 2019.

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

SEKm	2020	2019
Income tax for the period	0	-
Adjustments for prior periods	14	-
Total	14	-

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

SEKm	2020	2019
Value, January 1	-11	-4
Current tax expense	14	0
Paid tax	0	-7
BS Value, December 31	3	-11

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

SEKm	2020	2019
Changes in temporary differences	-33	-31
Adjustments for prior periods	-13	4
Total	-46	-27

Deferred tax assets (-)

SEKm	Value, January 1	Deferred tax expense	Value, December 31
Provisions for pensions	-179	0	-179
Other	47	-46	1
BS Total	-132	-46	-178

Appropriations and untaxed reserves

Accumulated depreciation in excess of plan totaling SEK 5m (4) is included in the Parent company's untaxed reserves.

PC5. INTANGIBLE ASSETS

Capitalized development costs		
SEKm	2020	2019
Accumulated costs	0	0
Accumulated amortization	0	0
Residual value according to plan	0	0
Value, January 1	0	0
Investments	–	–
Sales and disposals	–	–
Amortization for the period	–	0
BS Value, December 31	0	0

PC6. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

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

Equipment		
SEKm	2020	2019
Accumulated costs	22	21
Accumulated depreciation	–8	–5
Residual value according to plan	14	16
Value, January 1	16	5
Investments	1	13
Sales and disposals	0	0
Depreciation for the period	–3	–2
BS Value, December 31	14	16

PC7. PARTICIPATIONS IN SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

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

Participations in subsidiaries		
SEKm	Subsidiaries	
	2020	2019
Accumulated costs	175,500	175,508
Accumulated impairment	–53	–60
Carrying amount	175,447	175,448
Value, January 1	175,448	174,622
Investments	–	834
Divestments	–8	0
Reversal of impairment	7	–
Impairment for the period	–	–8
BS TPC7:1 Value, December 31	175,447	175,448

During the fiscal year, SCA Hygiene Products India Private Limited was liquidated and the company thus no longer recognizes a carrying amount for the holding in the balance sheet.

TPC7:1 Essity Aktiebolag's holdings of shares and participations in subsidiaries, December 31, 2020

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOBOF	556047-8520	Stockholm, Sweden	1,000	100	0
Essity Försäkringsaktiebolag	516401-8540	Stockholm, Sweden	140,000	100	14
Essity TC AB	556643-7298	Stockholm, Sweden	1,000	100	826
Foreign subsidiaries:					
Essity Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	174,328
Essity Italy S.p.A	3318780966	Capannori, Italy	125,000	25	279
Total carrying amount of subsidiaries					175,447

German Group companies that are subject to disclosure exemptions

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

1. Essity GmbH, domicile in Mannheim, Germany
2. Essity Holding GmbH, domicile in Ismaning, Germany
3. Essity Operations Neuss GmbH, domicile in Neuss, Germany
4. Essity Operations Mannheim GmbH, domicile in Mannheim, Germany
5. Essity Operations Mainz-Kostheim GmbH, domicile in Wiesbaden, Germany

6. Essity Professional Hygiene Germany GmbH, domicile in Mannheim, Germany
7. Essity Germany GmbH, domicile in Mannheim, Germany
8. Essity Operations Witzhausen GmbH, domicile in Witzhausen, Germany
9. Essity Hygiene Holding GmbH, domicile in Mannheim, Germany
10. BSN medical GmbH, domicile in Hamburg, Germany
11. BSN medical IP GmbH, domicile in Hamburg, Germany
12. BSN-Jobst GmbH, domicile in Emmerich am Rhein, Germany

PC8. RECEIVABLES FROM AND LIABILITIES TO GROUP COMPANIES

Receivables from and liabilities to Group companies

SEKm	2020	2019
Non-current assets		
Derivatives	542	545
BS Total	542	545
Current assets		
Interest-bearing receivables	6	-
Financial derivatives	24	56
Trade receivables	138	239
Other receivables	1,940	1,467
BS Total	2,108	1,762
Current liabilities		
Interest-bearing liabilities	50,890	44,580
Financial derivatives	637	396
Accounts payables	22	20
Other liabilities	361	58
BS Total	51,910	45,054

PC9. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2020	2019
TPC9:1 Prepaid expenses and accrued income	23	17
Other receivables	9	4
BS Total	32	21
TPC9:1 Prepaid expenses and accrued income		
Prepaid lease of premises	8	7
Prepaid financial expenses	1	1
Prepaid insurance premiums	0	0
Other items	14	9
Total	23	17

PC10. FINANCIAL INSTRUMENTS

AP ACCOUNTING PRINCIPLES

The Parent company's financial instruments are recognized in accordance with the Group's accounting principles. Refer to Notes E1-E4 on pages 96-99. Hedge accounting was not applied by the Parent company.

Financial items

SEKm	2020	2019
Result from participations in Group companies		
Dividends from subsidiaries	2,593	4,044
Gain/loss on sales of shares in subsidiaries	-7	-
Group contributions received from Group companies	1,937	1,466
Group contributions paid to subsidiaries	-360	-57
Impairment of shares in subsidiaries	-	-8
Reversal of impairment of shares in subsidiaries	7	-
Interest income and similar profit items		
Interest income, external	1	11
Interest income, Group companies	230	266
Interest expenses and similar loss items		
Interest expenses, external	-485	-523
Interest expenses, Group companies	-847	-614
Other financial expenses ¹⁾	-24	-33
IS Total	3,045	4,552

¹⁾ The item other financial expenses includes financial fees and exchange rate differences. Exchange rate differences amounted to SEK 7m (-1), net.

Interest-bearing liabilities

Non-current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2020	2019	2020	2019
Bond issues	27,968	31,164	29,084	32,299
Other non-current loans with a term > 1 yr < 5 yrs	3,742	5,222	3,766	5,238
BS Total	31,710	36,386	32,850	37,537

Current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2020	2019	2020	2019
Bond issues	5,013	-	5,037	-
Loans with maturities of less than one year	-	5,022	-	5,022
BS Total	5,013	5,022	5,037	5,022

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate %
Notes EUR 500m	2021	5,013	5,037	0.50
Notes EUR 600m	2022	6,006	6,078	0.63
Notes EUR 500m	2023	4,999	5,330	2.50
Notes EUR 600m	2024	6,000	6,234	1.13
Notes EUR 300m	2025	3,004	3,135	1.13
Notes EUR 500m	2027	4,985	5,373	1.63
Notes EUR 300m	2030	2,974	2,934	0.50
Total		32,981	34,121	

Financial instruments by category

AP ACCOUNTING PRINCIPLES

In 2020, the categories of financial instruments in the Parent company comprise in accordance with IFRS 9 financial assets and liabilities measured at fair value through profit or loss and amortized cost. All of the Parent company's financial assets and liabilities measured at fair value through profit or loss are assessed according to measurement level 2. A definition is provided in Note E1, page 97. Financial assets measured at amortized cost are continuously reviewed to assess the need for credit loss provisions. If there is a material need for credit loss provisions, a provision is made in accordance with the expected credit loss model.

PC10. FINANCIAL INSTRUMENTS, CONT.

Financial instruments by category

SEKm	Note	2020	2019
Financial assets measured at fair value through profit or loss			
Derivatives with Group companies – Non-current financial assets	PC8	542	545
Endowment insurances – Other non-current receivables		234	227
Derivatives with Group companies – Current financial assets	PC8	24	56
Total		800	828
Financial liabilities measured at fair value through profit or loss			
Derivatives with Group companies – Current financial liabilities	PC8	637	396
Total		637	396
Loan and trade receivables measured at amortized cost			
Current interest-bearing receivables with Group companies	PC8	6	–
Trade receivables with Group companies	PC8	138	239
Trade receivables – other current receivables		5	1
Total		149	240
Financial liabilities measured at amortized cost			
Non-current interest-bearing liabilities		31,710	36,386
Current interest-bearing liabilities to Group companies	PC8	50,890	44,580
Current interest-bearing liabilities		5,013	5,022
Accounts payables to Group companies	PC8	22	20
Accounts payables		20	16
Other current liabilities to Group companies	PC8	1	1
Other current liabilities		275	274
Total		87,931	86,299

The nominal value of the derivatives before the right of set-off is SEK 75,256m (52,915). The nominal value of the derivatives after the right of set-off is SEK 51,184m (40,309).

PC11. OTHER CURRENT LIABILITIES

Other current liabilities

SEKm	2020	2019
TPC11:1 Accrued expenses and prepaid income	432	460
Other operating liabilities	49	51
BS Total	481	511

TPC11:1 Accrued expenses and prepaid income

SEKm	2020	2019
Accrued interest expenses	275	274
Accrued social security costs	59	69
Accrued vacation pay liability	16	14
Other liabilities to personnel	45	80
Other items	37	23
Total	432	460

PC12. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented on page 114. The company was formed in 1988. The share capital and number of shares have increased since the formation via new issues and bonus issue as set out below:

YEAR	Event	No. of shares	Increase in share capital	Cash payment, SEKm
1988	Number of shares issued in connection with formation	500	0.1	0.1
1995	New issue 1:1, issue price SEK 100	500	0.1	0.1
2016	New issue 1:4, issue price SEK 100	4,000	0.4	0.4
2017	Bonus issue	702,337,489	2,349.9	0.0
2020	Number of shares, December 31, 2020	702,342,489	2,350.4	0.5

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

PC13. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities

SEKm	2020	2019
Guarantees for Group companies	12,141	16,890
Other contingent liabilities	40	60
Total	12,181	16,950

Pledged assets

SEKm	2020	2019
Other	234	227
Total	234	227

PC14. ADOPTION OF THE ANNUAL ACCOUNTS

The annual accounts are subject to adoption by Essity Aktiebolag's Annual General Meeting and will be presented for approval at the Annual General Meeting on March 25, 2021.

PC15. EVENTS AFTER THE BALANCE SHEET DATE

At the beginning of February 2021, Essity raised EUR 700m in the bond market under its Euro Medium Term Note (EMTN) program with a coupon of 0.25 percentage points and with a maturity on February 8, 2031. The purpose was to refinance maturing bond issues and to finance the operations.

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

H1. GENERAL ACCOUNTING PRINCIPLES

Reporting principles

The social and environmental data reported pertains to the 2020 calendar year unless otherwise specified. The figures included comply with relevant reporting and consolidation principles in accordance with the principles in the financial statements. The figures cover the Essity Group's wholly owned subsidiaries and subsidiaries in which Essity owns at least 50%. If ownership in the Group company is at least 50% or more, the entire company is included in the reporting.

For Group companies with significant non-controlling interests (see Note F2), such as the Chinese company Vinda and the Colombian company Familia, social data, such as employee figures, employee turnover and health and safety data is reported in notes H12 and H13. Some other social data is not included, for example Note H2 Code of Conduct data, as these companies have their own Codes of Conduct. Environmental data includes, as a general rule, Familia and Vinda's Personal Care operations. Vinda publishes an Environmental, Social and Governance (ESG) report, which is available at vinda.com. Familia reports in accordance with the GRI Reporting Standards. For more information, visit grupofamilia.com.co.

Newly acquired businesses are included in the reporting as soon as possible, though not later than when they have been part of the Group for one calendar year. The data from divested companies is excluded in its entirety as of the divestment date. Historic data for discontinued units is retained.

The section on Sustainability governance on pages 44-51 describes how Essity ensures that the company delivers on its sustainability targets. The H-notes present the results in recent years.

Data collection

Data provided in the report is compiled through various systems, primarily Essity's reporting system for non-financial data and the Group's financial consolidation system. The data in this report includes, as a general rule, all companies. The targets in the report apply, as a general rule, to wholly owned companies. Environmental reporting encompasses 74 production sites, covering virtually the entire company's environmental impact and resource utilization from production. Data from stand-alone tissue converting sites is included in data for the tissue plant.

Each unit reports the following data to the system:

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

The calculation of greenhouse gas emissions for Scope 1, 2 and 3 of Science Based Targets encompasses carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O). Conversion factors used:

- Greenhouse gas emissions from incineration are calculated using emission factors for the fuel's thermal value. Source: IPCC Guidelines 2006. (Scope 1 emissions)
- Greenhouse gas emissions from purchased electricity are calculated using the country's emission factor published by the International Energy Agency (IEA), 2017. (Scope 2 emissions, location-based)

Comparability

This is Essity's fourth integrated Annual and Sustainability Report. The previous year's report is from February 20, 2020. Figures from previous years are reported in parenthesis. Certain adjustments have taken place of environmental data for previous years, notes H9-H11, to adjust for acquisitions, divestments and updated location-based emission factors in line with the

GHG protocol. Minor updates also took place following the integration of earlier acquisitions into Essity's global reporting system for non-financial data.

Environmental impact

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

GRI reporting

Essity reports sustainability information in accordance with the Global Reporting Initiative (GRI) guidelines for GRI Reporting Standards: Core. The Report has been structured in accordance with GRI principles, meaning that the content is determined by the issues that are most material to Essity and its stakeholders, and that the content provides a complete overview of the operations. Essity's 21 subject areas in the materiality analysis are matched against GRI indicators, and they form the selection of the indicators that Essity presents in this report. Essity reports on all GRI indicators that are identified as material and on a relevant level. In addition, Essity reports a number of general standard disclosures according to the GRI Standards: Comprehensive option as this clarifies the information in the report. Any omissions or incomplete data are commented on directly in the GRI index. The Sustainability Report has been reviewed by EY. Additional information about Essity's work on social and environmental issues is available at essity.com/sustainability. The index can be found on pages 133-134.

The UN Guiding principles

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

TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) draws up voluntary, consistent climate-related financial risk disclosures for companies that make information available to investors, creditors, insurers and other stakeholders. Essity is publishing its first TCFD index in this report to allow investors and other stakeholders easy access to TCFD-related information for comparisons or decision-making. The index is presented on page 133.

SASB

The Sustainability Accounting Standards Board (SASB) Foundation establishes and maintains sector-specific standards that help companies to publish financially relevant sustainability information that may be useful in investor decisions. Since 2020, Essity has applied the standards applicable for the Household and Personal Products sectors. A detailed index with references to sections where Essity reports in relation to specific disclosures is available on page 133.

H2. BUSINESS ETHICS

Code of Conduct

Essity's target is for all new employees to receive training in the Code of Conduct as part of their onboarding program. Training is mainly conducted online. The courses are held through classroom instruction at production facilities. In 2020, a total of 92% of Essity's new employees underwent this mandatory course.

Risk analysis

About 36% of Essity's revenue comes from sales to countries with a relatively high risk of corruption. In the 2019 Sedex assessment, all of Essity's main facilities received a low to medium risk classification relating to human rights and corruption. In 2020, work with the COVID-19 pandemic was prioritized ahead of updating Sedex.

H2. BUSINESS ETHICS, CONT.

Reported breaches of the Code of Conduct

Essity encourages employees to always report suspected breaches of the Code of Conduct. Essity provides a whistleblower system where employees can submit reports anonymously, if permitted by local legislation. The summary below presents reports submitted to the whistleblower system and to Essity's Compliance & Ethics department. In 2020, five people were dismissed for breaches of the Code of Conduct. No one was dismissed on suspicion of corruption. The 45 HR-related reports include accusations of discrimination and harassment. Of 61 reported cases in 2020, 56 were closed and 5 cases are still under investigation.

Reports submitted to the whistleblower system and to Essity's Compliance & Ethics department by category

Category ¹⁾	2020	2019	2018
Regulatory breach, Fraud and Corruption	11	17	20
Security Incidents	2	-	-
Operations	1	6	3
Sustainability	-	-	-
Human Resources	45	65	58
Other	2	-	-
Total	61	88	81

¹⁾ Essity's Compliance & Ethics department allocates the submitted reports into the relevant category. The category may be changed during the course of an investigation.

Ongoing anti-trust cases

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

Internal audits conducted of the Code of Conduct

Travel restrictions due to COVID-19 have limited the number of audits of the Code of Conduct. The method used for the audits was adapted to allow these to take place remotely. In 2020, an internal audit took place at the facility in Slovakia. The facility fulfilled 5 of 9 parts of SA8000, but can with minor improvements fulfill all parts. An action program is in place and has commenced or will be carried out in 2021.

Internal audits conducted of business ethics

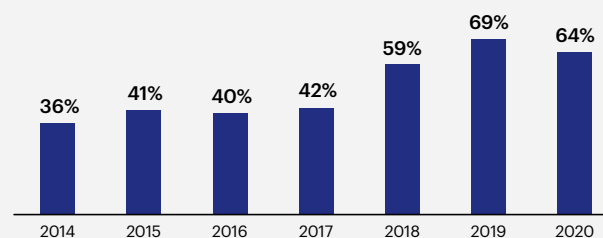
Travel restrictions due to COVID-19 have limited the number of audits conducted. The method used for the audits was adapted to allow these to take place remotely. In 2020, an audit was conducted of business ethics in the Health and Medical Solutions operation in Poland. Essity Health and Medical Solutions in Poland must improve its control of marketing services and increase compliance with Essity's internal guidelines. An action program is in place and has commenced or will be carried out in 2021.

Read more about how Essity works with business ethics on page 50.

H3. INNOVATION

Essity wants to improve well-being for consumers and customers while reducing its impact on the environment with focus on More from less and Circularity. Essity's target is that at least 33% of the company's innovations are to yield social and/or environmental improvements. In 2020, 64% (69; 59) of Essity's innovations yielded social and/or environmental improvements. This refers to the percentage of sales of innovations measured over 36 months. Variations between the years are a natural result of the product categories' various launches. Examples of innovations in 2020 include packaging made from recycled or renewable plastic, face masks and washable absorbent underwear.

Sustainable innovations



A product range's life cycle assessment (LCA) encompasses most of the products sold in a region. This allows Essity to measure environmental performance for innovations and gradual improvements in the company's daily operations for entire product ranges over several years.

Lower climate impact through the use of innovation

Products	Year	Carbon footprint reduction %
Incontinence Products		
TENA Flex	2008-2019	-18
TENA Pads and Liner		-33
TENA Comfort		-19
TENA Men		-20
TENA Pants and Underwear		-33
TENA Slip		-20
TENA Bed		-11
Feminine Care		
Feminine Ultra towels	2008-2019	-17
Baby Care		
Libero and Lotus open diaper	2008-2017	-25
Libero and Lotus pant diaper		-16
Professional Hygiene		
Tork napkins	2011-2019	-9
Tork paper hand towels	2011-2017	-18
Consumer Tissue		
Toilet paper	2011-2018	-10
Household towels		-19
Handkerchiefs and facial tissues	2011-2020	-8

The life cycle assessments performed by Essity have been subject to third-party reviews. A product range's LCAs are updated every second or third year.

Read more about how Essity works with innovation on pages 45-47.

H4. CUSTOMERS AND CONSUMERS

Customer surveys

Essity conducts systematic customer and consumer follow-up, which includes external reports, independent surveys and global systems for feedback. Essity places high value on opportunities for direct customer contact. Customer feedback enables Essity to offer better products and services.

Every business unit has processes to investigate customer satisfaction. Essity also offers expertise and support for the development of operations in, for example, nursing homes and professional environments, where the company can help make a difference and create value for its customers and users.

The retail trade accounts for a significant part, 61%, of Essity's net sales. The company uses external comparison reports in which the largest retail chains assess their suppliers based on customer service, logistics, sales support, marketing and product development. Consumers who purchase retail products are followed up through general brand and product recognition surveys.

Complaints have remained at a low and stable level in recent years. For Personal Care products, the complaint frequency is lower than 1 in a million supplied products. In the Tissue operations, the corresponding figure is 2.1 per thousand tons.

Product safety

Essity ensures that all products are safe for their intended purpose throughout their entire life cycle. Essity sold no products containing substances on the California DTSC Candidate Chemicals List above 0.1%. The only exception was the use of isopropyl alcohol where this is important for the products' functionality, for example as biocide ingredient in hand sanitizer, an important hygiene product during the COVID-19 pandemic. Essity's sales of products containing chemicals on the REACH SVHC candidate list were below 0.1% of total sales.

Read more about how Essity works with Customers and consumers on page 45.

H5. ROLE IN SOCIETY AND COMMUNITY RELATIONS

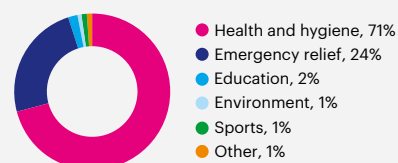
Essity strives to be a dedicated partner in the local communities in which it operates. In 2020, Essity reached out to people in several countries who were particularly vulnerable during the COVID-19 pandemic through a collaboration with the Red Cross. Essity also increased the company's commitment in the Global Handwashing Partnership, under the leadership of the WHO and UNICEF. As part of a collaboration with UNICEF in Mexico, Essity launched a virtual initiative to educate thousands of girls, boys, teachers and parents about hand hygiene and hygiene in relation to menstruation.

Essity invested approximately SEK 49m (38; 18) and about 764 work hours (including staff management) in over 300 projects in 2020. Most of the projects were related to hygiene and health.

Essity's steering documents for community relations state that Essity shall be politically and religiously neutral. The company must not make payments or product donations to political parties or candidates, or their institutions, agencies or representatives. Essity did not support any organizations or projects with political or religious aims in 2020.

Read more about Essity's role in society and community relations on pages 45 and 141.

Community relations by focus area 2020



H6. PACKAGING

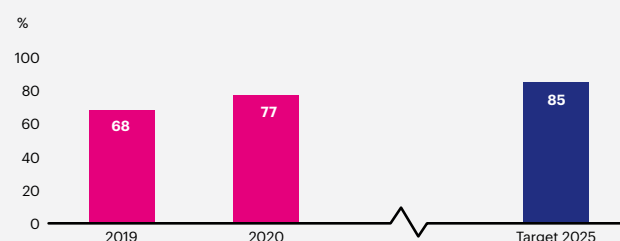
The packaging target for 2025 is that Essity is striving for 100% recyclability and 85% renewable or recycled material in the company's packaging. This target applies to both paper and plastic packaging for Essity's brands. Most of Essity's packaging comprises corrugated board and board for paper packaging and bags and flexible plastic film from polyethylene (PE) or polypropylene (PP) for plastic packaging.

In 2020, Essity's packaging volume for its brands amounted to 171,000 tons. 83% of this volume was recyclable in 2020. For plastic packaging, 77% was recyclable. The proportion of renewable or recycled materials was 77%. 3% of plastic packaging was manufactured from renewable or recycled material, of which the share of recycled plastic was 2%.

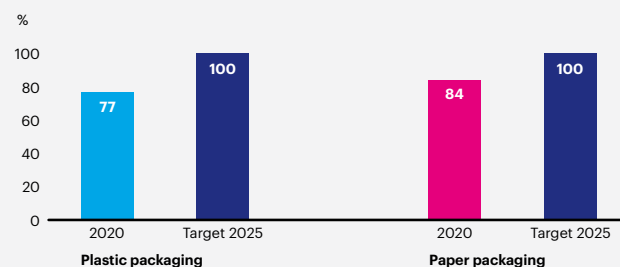
In 2020, Essity estimated the technical recyclability of a large portion of the company's packaging. Essity has thereby improved packaging design to facilitate recycling using existing infrastructures. Essity will continue to assess the technical recyclability of the remaining packaging in 2021 and 2022. Fossil-based plastic in the company's plastic packaging can be replaced with renewable plastic, recycled plastic or paper. When Essity designs new packaging, it assesses function, safety and environmental performance.

Read more about how Essity works with packaging on pages 46–47.

Share of packaging manufactured from renewable or recycled material



Share of technical recyclability



H7. SUPPLY CHAIN AND HUMAN RIGHTS

To ensure responsible business methods and respect for human rights in Essity's supply chain, Essity's target is that all sourcing is to be from suppliers that share the company's values. The target for 2020 was that 100% of all strategically important sourcing categories and sourcing from high-risk areas, which corresponds to 90% of Essity's total purchase cost, is to be from suppliers that comply with Essity's Global Supplier Standard. In 2020, 92% (85; 71) of the procurement spend was sourced from suppliers who fulfill these criteria.

The COVID-19 situation had an adverse impact on work to ensure that the company's suppliers fulfill the requirements of Essity's Global Supplier Standard, and required Essity to instead concentrate on securing deliveries and minimizing delivery risks. The continuous work linked to Sedex and ethical audits, as described below, was also impacted by COVID-19 and could not be carried out to the same extent as in previous years.

H7. SUPPLY CHAIN AND HUMAN RIGHTS, CONT.

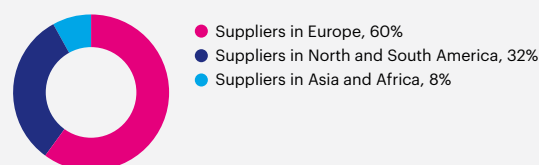
Risk analysis

Essity has an established process to perform continuous risk assessments of the company's suppliers and sourcing categories. Approximately 60% of Essity's strategic suppliers for raw materials and finished products are located in Europe, 32% in North and South America and 8% in Asia and Africa. Many of the strategic suppliers' production facilities located in Asia and Latin America are part of large multinational corporations based in Europe and the US. This is a conscious choice by Essity to reduce the social and ethical risks within the supply chain.

23% (19; 21) of strategic suppliers' manufacturing units are located in high-risk countries according to the Sedex definition. These suppliers are in scope for ethical audits with a focus on health and safety, human rights, employment conditions and corruption. At the end of 2020, Essity had a total of 1,008 (929; 694) suppliers that share data via Sedex.

Certain materials, such as cotton and wood fiber, are considered to primarily have risks lower down in the value chain. Essity takes further measures here, such as audits of subcontractors, or chooses certified raw materials that guarantee more sustainable extraction and production.

Geographical distribution of strategic suppliers 2020



Note: The geographical location of the suppliers' production facilities is a conscious choice by Essity to reduce the social and ethical risks within the supply chain.

Ethical audits conducted

The preferred audit format is SMETA, which is the most popular method in the world for social and ethical audits.

Travel restrictions related to COVID-19 have limited the number of audits conducted. During 2020, Essity evaluated the outcome from 37 (52; 59) ethical supplier audits, of which 31 (45; 30) were carried out in Sri Lanka, Turkey, Colombia, China, Malaysia, Brazil, South Africa, Thailand, Mexico, Russia and Peru. Of these audits, 12 were carried out by Essity using an independent audit firm. The other 25 (19; 29) ethical audits, which meet Essity's requirements, were carried out by other customers to suppliers and were approved by Essity.

Essity is informed within 24 hours in cases of critical observations. No agreements with strategic suppliers were terminated on the grounds of sustainability-related non-compliance in 2020.

Ethical audits conducted

	2020	2019	2018
Audits initiated by Essity ¹⁾	12	33	30
Audits initiated by customers ²⁾	25	19	29
Total number of audits	37	52	59

¹⁾ Audits initiated by Essity were conducted by Essity's independent audit firm in accordance with SMETA's 4-pillar format.

²⁾ Audits initiated by customers were carried out by other customers to suppliers and were approved by Essity.

Read more about how Essity works with the supply chain and human rights on page 50.

H8. FIBER SOURCING

Renewable raw materials, wood-based fresh fiber and recycled fiber, account for the largest share of the total volume of material in Essity's products. In 2020, Essity purchased 3.5 million tons of wood-based fresh fiber and 2.0 million tons of recycled fiber. Wood-based fresh fiber mainly comprises pulp, 98%, and the remainder comprises packaging, externally sourced mother reels and products manufactured by third parties. Of the 2.0 million tons of recycled fiber sourced, 92% is used in tissue manufacturing. The remainder consists of recycled fiber, which is found in sourced packaging material and sourced mother reels.

Fiber use, pulp and recovered paper

	2020	2019	2018	2017
Fiber used, million tons	5.1	5.3	5.1	5.3
of which, pulp consumption	3.2	3.1	3.0	3.1
share of total fiber use, %	62	60	60	59
of which, recovered paper consumption	1.9	2.1	2.1	2.2
share of total fiber use, %	38	40	40	41

Fiber sourcing

In 2019, Essity introduced a new target that all raw materials derived from wood-based fresh fiber in the company's products and packaging are to be certified in accordance with the Forest Stewardship Council® (FSC®) or the Programme for the Endorsement of Forest Certification (PEFC™). Target fulfillment in 2020 was 95% (79; 76). All wood-based fresh fiber must fulfill the FSC®'s Controlled Wood standard, as a minimum, to be eligible for purchasing.

Fiber sourcing wood-based fresh fiber by certification¹⁾, %

	2020	2019	2018	2017
FSC®	59	57	48	39
PEFC™	36	22	29	26
FSC® Controlled Wood standard ²⁾	5	21	23	35
Total	100	100	100	100

¹⁾ The distribution applies to sourcing by wholly owned companies.

²⁾ Includes sourcing of fresh fiber to three of Essity's facilities in 2020 as FSC® Controlled Wood and evaluated against the standard for Controlled Wood (in accordance with Essity's policy). Due to COVID-19, the facilities have not yet implemented FSC® Chain of Custody at the end of 2020. A small share of mother reels and packaging purchased in 2020 from suppliers was not FSC® Controlled Wood.

In 2020, new data collection systems were introduced for packaging and mother reels to obtain information from suppliers about their capacity to deliver certified packaging and mother reels and, if possible, certify existing deliveries. In 2021, action plans will be agreed with suppliers to certify the remaining small volumes of fresh fiber-based mother reels and packaging, with Essity's support where necessary. Essity prefers to cooperate with suppliers and to introduce FSC® or PEFC™ Chain of Custody to deliver certified and controlled material instead of changing supplier. This approach helps to promote certification throughout the supply chain, for existing and future suppliers.

Recycled and alternative fibers

The proportion of recycled fiber in Essity's products varies between regions due to differences in quality, user preferences and fiber supply and demand. Access to recycled paper was substantially affected by COVID-19 restrictions in Europe and North and South America in 2020. Nonetheless, Essity continued to use recycled fiber, which meant operations in North and South America used 84% recycled fiber, while the proportion of recycled fiber in Europe was 36%.

Essity has continued to study new methods for collecting and recycling, such as the collaboration regarding the circular service Tork PaperCircle®. This service collects used paper hand towels for reuse as new tissue products.

In 2020, Essity continued to develop and test new products made using alternative fibers from wheat straw, cotton, bamboo and sugar cane. One example is Essity's tissue plant in Mannheim, Germany that will start manufacturing tissue from wheat straw in 2021.

Audits conducted of pulp suppliers

The eight largest pulp suppliers to Essity's wholly owned companies represent 81% the volume sourced. Due to COVID-19 restrictions, no on-site audits were carried out in 2020. New questions concerning traceability have been added to the questionnaire, which will continue to be used. This will be sent to all suppliers in 2021. In addition, a new COVID-19 assessment was added to identify delivery and health risks at all suppliers. Essity is examining opportunities to conduct audits online. The company has also carried out a number of third-party audits based on information collected without being present on-site at potential new suppliers.

Read more about how Essity works with fiber and other materials on page 46.

H9. AIR EMISSIONS: SCOPE 1 AND 2

Energy efficiency and emissions reductions have been a major focus for Essity for many years. Essity's production facilities for tissue products had already in 2005 a program to reduce CO₂ emissions per ton of tissue products produced. The reduction in CO₂ emissions per ton produced between 2005 and 2020 was 19%.

Since 2010, Essity's production facilities have a target to reduce energy consumption by 14% per ton of tissue products produced by 2020. This was within the framework of the ESAVE program. The accumulated energy savings in the 2010–2020 period amounted to 8%.

Essity's targets to reduce absolute greenhouse gas emissions were approved by the Science Based Targets initiative in 2018. In terms of energy consumption within the company and purchased electricity (Scope 1 and 2), Essity has undertaken to reduce greenhouse gas emissions by 25% by 2030 compared with 2016. The target applies to wholly owned companies. The outcome for 2020 was –11% (–5, –5) for Scope 1 and 2. The reduction in 2020 was the result of lower production volumes in Professional Hygiene and Personal Care due to COVID-19 and continued improvements in energy efficiency.

Greenhouse gas emissions

Essity's greenhouse gas emissions are divided into three different Scopes depending on origin. Scope 1 and 2 are directly linked to Essity's production facilities and are dependent on production volumes. This also includes direct emissions from fuel consumption and indirect emissions from the use of purchased energy. Scope 3 reports indirect emissions in Essity's value chain (see separate Note, H10). Scope 1 consists of emissions from burning of fuels at Essity's production facilities. The reported data is based on energy use with associated emission factors. Scope 2 consists of emissions from purchased energy and is primarily linked to the use of electricity and also purchased thermal energy in the form of steam. The calculation of emission data uses country and region-specific emission factors.

Energy utilization

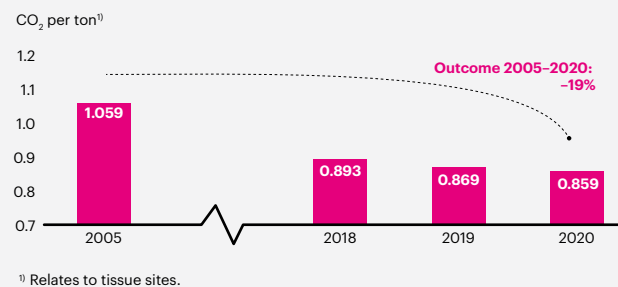
Energy efficiency, new technology and the greater use of renewable energy are required to achieve Essity's stated targets. Energy use calculations include purchased energy, use of fuel and biomass and electricity generated on site. The energy generated is used in production. The surplus heat created is mainly used by Essity. A minor share is sold externally. Most of Essity's energy, both fuel and electricity, is used in tissue production. The focus for tissue production is therefore on improving energy efficiency. Energy savings as specified above amounted to 8% between 2010 and 2020. These savings were achieved through a number of major investment projects in technical upgrades of the company's paper machines. Best practice is also continuously identified and implemented in terms of energy efficiency and energy savings at the company's production facilities. Essity's energy efficiency program will remain a cornerstone of Essity's work to reduce energy use and emissions and is strongly linked to its commitment to Science Based Targets. The production of Personal Care products primarily uses electricity. In 2020, Essity increased its share of renewable electricity at facilities in Europe.

The EU Emissions Trading Scheme (EU ETS)

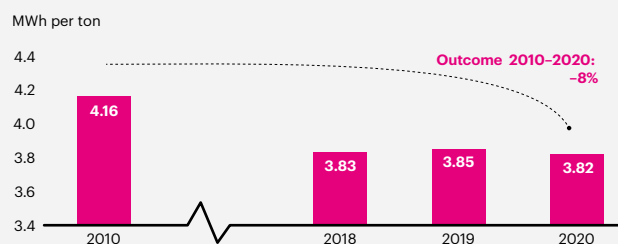
Essity had 23 production facilities included under the EU ETS in 2020. During the third phase of EU ETS (2013–2020), Essity's operations have had a deficit of emission allowances. The deficit involves an average of approximately 0.2 million tons of carbon dioxide equivalents per year during the period. The average market price for emission rights in 2020 was about EUR 24.8 (24.8; 15.9) per ton and Essity purchased 225,000 (240,000; 240,000) emission rights to cover the year's deficit.

Read more about how Essity works with air emissions on page 47.

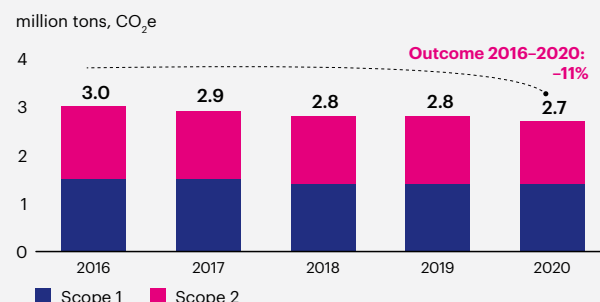
CO₂ intensity



Energy efficiency



Air emissions, Scope 1 and 2



Air emissions: Science Based Targets, ktons

	2020	2019	2018	2017	2016
Scope 1, CO ₂ e	1,367	1,452	1,453	1,472	1,474
Prior year adjustment ¹⁾		0	10	12	–1
Scope 2, CO ₂ e ²⁾	1,285	1,368	1,383	1,398	1,518
Prior year adjustment ¹⁾		31	45	–39	62

¹⁾ Acquisitions/divestments, updates of emission factors (location based) according to the GHG protocol.

²⁾ Derived from location-based emission factors.

Other air emissions¹⁾

	Essity – wholly owned companies					Group companies with significant non-controlling interests					Essity Group				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
NOx as NO ₂ , tons	1,787	1,545	1,753	1,809	1,833	27	27	22	23	25	1,814	1,572	1,775	1,832	1,858
SOx, tons	489	563	663	775	752	0	23	13	14	16	489	586	676	789	768
Dust, tons	100	123	117	122	136	4	5	5	5	5	104	128	122	127	141
CO ₂ biogenic, ktons	493	512	497	477	527	–	–	–	–	–	493	512	497	477	527

¹⁾ Other air emissions from use of fuel in production facilities include nitrogen oxides and sulfur oxides (NOx and SOx).

H9. AIR EMISSIONS, SCOPE 1 AND 2, CONT.

Energy and air emissions (Scope 1 and 2)

	Essity – wholly owned companies					Group companies with significant non-controlling interests					Essity Group				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Production, ktons	3,377	3,508	3,549	3,641	3,626	293	288	282	299	300	3,670	3,796	3,831	3,940	3,926
Energy utilization															
Purchased electricity, GWh	3,928	4,098	4,184	4,222	4,259	303	291	271	269	286	4,231	4,389	4,455	4,491	4,545
Heating/steam															
Purchased heating/steam, GWh	181	257	264	208	207	–	–	–	–	–	181	257	264	208	207
Fuels															
Biofuel, GWh	1,129	1,181	1,197	1,227	1,368	–	–	–	–	–	1,129	1,181	1,197	1,227	1,368
Fossil fuel, GWh	6,615	6,978	6,982	7,020	7,028	304	357	346	337	317	6,919	7,335	7,328	7,357	7,345
Total fuels, GWh	7,744	8,159	8,179	8,247	8,396	304	357	346	337	317	8,048	8,516	8,525	8,584	8,713
Total energy, GWh	11,853	12,514	12,627	12,677	12,862	607	648	617	606	603	12,460	13,162	13,244	13,283	13,465
Energy intensity (specific energy used), GWh per ktons	3.5	3.6	3.6	3.5	3.5	2.1	2.3	2.2	2.0	2.0	3.4	3.5	3.5	3.4	3.4
Greenhouse gas emissions															
Scope 1, CO ₂ e, ktons	1,367	1,452	1,453	1,472	1,474	68	79	75	72	68	1,435	1,531	1,528	1,544	1,542
Scope 2, CO ₂ e (location based), ktons	1,285	1,368	1,383	1,398	1,518	24	23	22	22	39	1,309	1,391	1,405	1,420	1,557
Scope 2, CO ₂ e (market based), ktons	1,400	1,575	1,767	1,808	1,805	73	71	66	65	85	1,473	1,646	1,833	1,873	1,890

H10. AIR EMISSIONS: SCOPE 3

Essity's target is to reduce greenhouse gas emissions by 18% within Science Based Targets' Scope 3, which applies to the most important suppliers of raw materials, transportation and waste, until 2030 and starting in 2016. The target applies to wholly owned companies.

An inventory of all greenhouse gas emissions from 2016 found that Scope 3, meaning indirect emissions generated upstream and downstream in the value chain, accounted for 54% of all emissions. The most important categories were emissions from production of Essity's suppliers, transportation (upstream and downstream), waste from the company's own production and product waste after use. The categories represent the majority of total Scope 3 emissions in the value chain. Remaining emissions were assessed but are not included in Essity's Science Based Targets as these are not deemed material. Essity is also striving to reduce other emissions such as emissions from business travel and commuting to work.

Essity calculates these emissions using data from several providers in the company's value chain. To ensure that Essity has complete and reliable data, Scope 3 emissions are reported with a one-year delay.

Read more about how Essity works with air emissions on page 47.

Sourced raw material

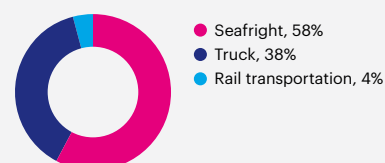
Essity purchases raw materials from suppliers in order to manufacture hygiene and health products. Most of the raw material is from wood-based fresh or recycled pulp for tissue and fresh wood-based pulp, super absorbents and non-woven for Personal Care products. Essity collaborates with the company's largest suppliers to jointly reduce environmental impact.

Read more about how Essity works with fiber in Note H8.

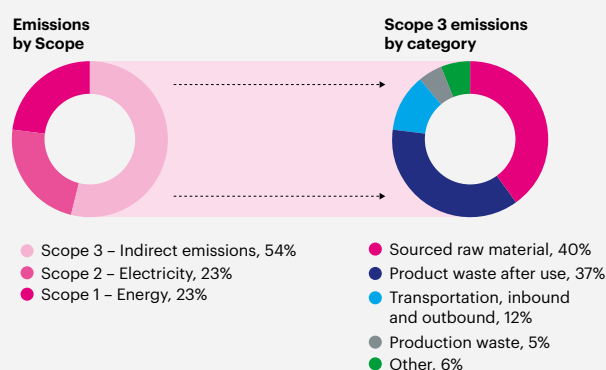
Transport

Raw materials are transported to Essity's production plants and finished products are delivered to Essity's customers. Transportation is carried out by external suppliers. Sea freight accounts for the greatest portion of Essity's inbound transportation and most of the outbound consists of road and rail. Essity's total transportation amounted to 13 (13; 14) billion ton-kilometers in 2020.

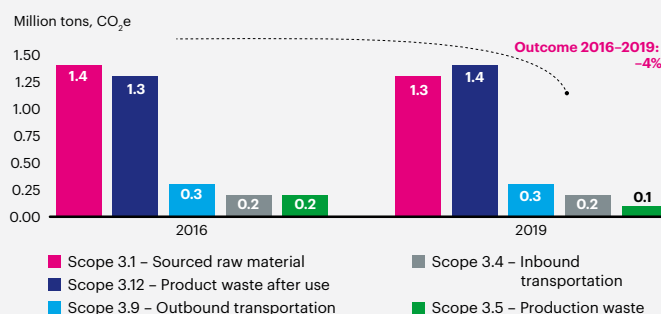
Distribution of transport modes 2020



Scope emissions, Science Based Targets, 2016 inventory



Scope 3 emissions, Science Based Targets, results



Waste in production and after use

Essity's target is that all production waste will be subject to material and energy recovery by 2030. By reducing the amount of production waste sent to landfill and instead recycling the waste or extracting energy from it, greenhouse gas emissions can be reduced, thereby helping Essity to achieve its Science Based Targets (Scope 3).

H10. AIR EMISSIONS, SCOPE 3, CONT.

In 2020, Essity's production waste amounted to a total of 1.49 (1.68; 1.65) million tons. In Essity's production process, particularly when recycled fiber is used as input goods, waste is generated in the form of ash, sludge, organic waste and plastic. The production sites work to reduce waste and to find alternative solutions for their waste. Waste that cannot be recovered, is sent to landfill or composted. In 2020, 65% (63; 60) of Essity's waste was recovered.

A small proportion, 0.2% or 3,159 tons, is hazardous waste, which is primarily waste oil, but also includes organic solvents, batteries and strip lights.

Waste from products after use is managed in various ways. Toilet paper is flushed into the sewer system. Other products are sent to municipality waste facilities where the used products are composted, incinerated or sent to landfill. In order to reduce waste from products after use and thereby reduce its climate footprint, Essity aims to increase the use of renewable materials and study new reusable concepts and recycling. One example of new methods introduced by Essity is Tork PaperCircle®, where used paper hand towels are collected and recycled.

Production waste, ktons

	Essity – wholly owned companies					Group companies with significant non-controlling interests					Essity Group				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Eliminations	489	567	659	627	671	5	6	8	7	10	494	573	667	634	681
of which landfill	485	543	634	601	640	2	2	7	6	9	487	545	641	607	649
of which other eliminations	4	24	25	26	31	3	4	1	1	1	7	28	26	27	32
Recycling	895	978	875	938	1,013	103	125	112	102	100	998	1,103	987	1,040	1,113
Total waste	1,384	1,545	1,534	1,565	1,684	108	131	120	109	110	1,492	1,676	1,654	1,674	1,794

H11. WATER

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

In 2020, levels of suspended solids decreased 26.9% (25.8; 18.5), the amount of organic content (BOD) by 21.0% (28.5; 25.0) and the quantity of discharged water by 3.5% (1.9; 2.9) compared with 2014. Essity's main focus has been to improve water quality during these years. In 2021, Essity will draw up new targets for the company's water management.

Extraction, use and discharge of water

Essity's reporting of water extraction states totals for surface water, ground-water and municipal water systems. Surface water, which represents the largest share of water extraction, as a general rule must be purified from dissolved and solid content before use in the production process. Most of Essity's water is used to transport fibers during production processes. The remainder is mainly used as cooling water. In 2020, 73% (74; 75) of the water used was drawn from surface sources. Essity's water discharge is divided into cooling water and process water. Cooling water has simply been heated and is not contaminated in any way. Process water is treated using mechanical and biological treatment systems before it is discharged.

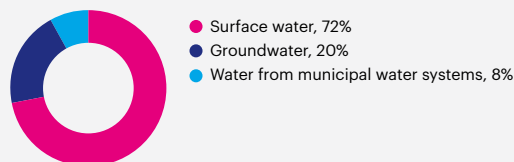
In 2020, six of Essity's wholly owned production facilities were located in so-called water-stressed areas. The sites accounted for 7% of Essity's total water consumption, distributed between 37% from surface sources, 37% from groundwater and the remainder from recycled water from municipal water systems. Total water extraction from these facilities in 2020 was

6.9 million m³, water discharges 4.4 million m³ and water consumption 2.5 million m³.

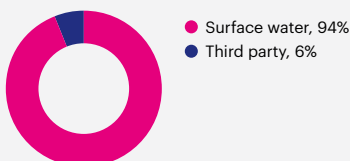
Any environmental incidents are registered in a central incident-reporting system. In 2020, a small number of incidents relating to temporary exceedances of permitted limit values for waste water were registered. No incident was of such a magnitude that it posed a threat to an emissions permit.

Read more about how Essity works with water on page 47.

Breakdown of water extraction 2020



Breakdown of discharged water 2020



Water

	Essity – wholly owned companies					Group companies with significant non-controlling interests					Essity Group				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Water, mm ³															
Water extraction	90	102	100	101	102	3	3	3	3	3	93	105	103	104	105
Discharges of water	81	94	93	93	93	2	3	2	2	2	83	97	95	95	95
Water consumption ¹⁾	9	7	7	8	9	1	1	1	1	1	10	8	8	9	10
Water emissions, tons															
COD	5,897	6,021	6,316	6,578	6,773	630	739	733	900	967	6,527	6,760	7,049	7,478	7,740
BOD	632	614	666	646	877	227	199	185	229	262	859	813	851	875	1,139
Suspended solids	660	719	815	818	1,018	196	193	186	242	250	856	912	1,001	1,060	1,268
AOX	4	3	3	5	4	–	–	–	–	–	4	3	3	5	4
P	33	38	43	34	38	0	1	1	3	4	33	39	44	37	42
N	150	186	198	235	375	1	1	1	3	5	151	187	199	238	380

¹⁾ Water consumption is water extraction less discharged water.

H12. EMPLOYEES

Essity's employees are the company's main asset and the company strives continuously to develop corporate culture, competence and leadership.

	2020	2019	2018	2017
Personnel data				
Average number of employees	46,084	45,980	47,222	46,385
of which in wholly owned companies	27,881	27,956	28,696	28,035
of which in jointly-owned companies	18,203	18,024	18,526	18,350
Permanent staff/ temporary employees, % ¹⁾	81/19	82/18	81/19	80/20
Full-time/part-time, %	97/3	96/4	97/3	97/3
Total number of part-time staff	1,194	1,614	1,052	1,362
of whom women	875	1,210	980	930
Total number on parental leave	449	451		
of whom women	369	297		
Staff mobility				
Number of employees who joined the Group	6,891	5,516	6,945	13,585
of whom, through acquisitions	190	23	36	5,518
Number of employees who left the Group	7,402	6,485	7,815	7,321
due to divestments	945 ²⁾	109	-	21
due to restructuring	260	345	544	584
due to retirement	443	524	383	418
of which temporary employees	1,939	1,420	1,799	1,857
Personnel turnover, excl. restructuring, retirements, divestments, temporary employees, %	8	9	11	10
of whom in wholly owned companies, %	5	5	5	
of whom in jointly-owned companies, %	13	13	18	

¹⁾ Fixed-term employees in China with three or six-year contracts are classified as temporary employees.

²⁾ Since the divestment occurred at the end of the year, these are included in the "average number of employees" in 2020.

Diversity and equal opportunities

Essity continuously and actively strives to increase diversity and inclusion. The company's diversity and inclusion strategy aims to continuously increase employees' sense of belonging and inclusion of different perspectives, and also seeks to attract and recruit employees motivated by the company's objective of breaking barriers to well-being in society. This work is followed up in Essity's diversity study, which is held every year and relates to nationalities, age structure and distribution of gender in general and in managerial roles.

	2020	2019	2018	2017
Gender¹⁾				
Women/men, %	35/65	34/66	34/66	34/66
Women (total number Board members)	6 (12)	6 (12)	6 (12)	5 (13)
Women (total number Executive Management Team)	3 (12)	3 (12)	3 (12)	5 (14)
Women (total number senior management)	30 (98)	30 (98)	25 (101)	30 (117)
Women (total number middle management)	177 (607)	163 (580)	177 (641)	183 (696)
Age, %				
Employees under 20 years of age	1	1	1	1
21-30 years	18	22	21	22
31-40 years	34	32	33	33
41-50 years	26	25	25	25
51-60 years	18	17	17	16
Employees over 60 years of age	3	3	3	3
Nationalities¹⁾				
Total number of nationalities	117	112	105	102
Number of nationalities in Executive Management Team (number of members)	6 (12)	6 (12)	6 (12)	5 (14)
Number of nationalities in senior management (number of senior managers)	18 (98)	20 (98)	17 (101)	18 (117)
Number of nationalities in middle management (number of middle managers)	44 (607)	39 (580)	39 (641)	36 (696)

¹⁾ Refers to Essity's wholly owned companies.

Salary

No unjustified pay differences should exist due to gender, age or background. This is regularly monitored and any unjustified differences are corrected on an annual basis.

Average combined salary ¹⁾ , %	2020	2019	2018	2017
Women's median wage compared with men's (men's wage 100%)	91	92	94	95
Women's median wage compared with men's in senior management (men's wage 100%)	80	82	79	78
Women's median wage compared with men's in middle management (men's wage 100%)	95	97	92	92

¹⁾ Applies to salaries from Sweden, Germany, France, the US and Mexico (countries where Essity has most employees). Salaries for the President, Executive Vice President and CFO are excluded.

A higher number of men in senior leadership positions has contributed to the total pay difference between women and men. Essity is continuously striving to improve the gender balance in leadership positions when recruiting and through succession planning.

Performance and individual development

In 2020, Essity launched a global HR system for individual goals and development that is available to all employees. The system is not yet fully implemented in the company's production facilities, but the aim is to include all employees.

Employee development plans are important for commitment, performance and continuous learning, and play an important role in enabling Essity to achieve its goals and continuously evolve. The development activities are decided through discussions between line managers and employees and are documented in a system platform. Essity identifies the skills required in leadership, the functional area, the "Beliefs & Behaviors" set of values or other development areas. The company applies a 70-20-10 model for learning and development that combines formal training with learning in day-to-day work and through co-workers.

In 2020, many of Essity's development activities became digital, which gave more employees access to them. Essity has a new framework for leadership development activities, mandatory courses, the digital workplace and a framework for functional training.

Number of internal training hours (thousand)	2020	2019	2018	2017
Total number of internal training sessions	166.8	114.0	81.2	140.8
of which digital training sessions	93.6	39.5	23.8	24.6
of which virtual sessions	40.9	1.9	0.9	0.0
of which physical training sessions	32.3	72.7	56.5	116.2
The number of training hours per employee	6	4	3	5

Investments in skills-enhancement activities	2020	2019	2018	2017
Total, SEKm	115	117	141	152
per employee, SEK	2,500	2,500	3,000	3,300
Value added (SEK) per employee	826	800	661	666
Return (SEK) on human capital	1.73	1.61	1.50	1.59

Employee goals and commitment

Essity's winning culture is based on the company's "Beliefs & Behaviors" and followed up through an employee survey, whereby the company continuously monitors employee engagement. Due to the situation with the COVID-19 pandemic, the 2020 Pulse Survey only included employees with a work computer. It had a particular focus on engagement with regard to working from home.

	2020 ¹⁾	2019	2018	Long-term goals
Culture and development, %				
Individual development plans	65			100
Individual goals	93	83	84	100
Employee engagement	90	79	79	>85

¹⁾ Refers to employees with work computer.

Internally appointed vacancies, %	2020	2019	2018	2017
Vacancies appointed through internal candidates ¹⁾	23	23	28	26

¹⁾ Refers to Essity's wholly owned companies.

Employee relations

Union involvement varies among Essity's countries of operation. On average 68% (68; 63) of Essity's employees are covered by collective agreements. There are health and safety committees on which representatives of 84% (85; 82) of employees served. The notice period in connection with organizational changes in the Group varies, but averaged about five weeks.

Read more about how Essity works with employees on pages 48-49.

H13. HEALTH AND SAFETY

In 2020, Essity conducted a global survey to measure and evaluate how Essity facilitates and supports the physical, mental and social health of employees. The survey also shows the distribution of reactive, proactive and preventive health programs and health initiatives. The aim is to encourage continuous improvements and share best practices worldwide. This survey was conducted at 80 of Essity's larger facilities, both production facilities and offices, in 2020.

Due to COVID-19, work with health and safety was intensified in 2020. For instance, Essity has made training material and activities available to ensure healthy remote working and taken steps to ensure the best possible health and safety practices at the company's production facilities and offices.

Sickness absence

	2020	2019	2018	2017
Sickness absence, % ¹⁾	5.34	5.20	4.92	4.86
Scope of reporting, % of wholly owned companies	56	54	55	57

¹⁾ Sickness absence is calculated using the number of hours absent (excluding planned and long-term illness), divided by the number of work hours.

Essity's Group target is to decrease the accident frequency rate by 50% in the 2014–2020 period. In 2020, the accident frequency rate declined by 17% year-on-year to 2.7 (3.3; 3.8) accidents per million hours worked and 56% compared with the base year of 2014. The reduction is the result of purposeful and systematic work with safety issues at all of Essity's production facilities.

In 2020, Essity updated its health and safety strategy and global Health and Security Policy as part of the company's journey toward a risk-free safety culture. Key initiatives within this strategy include controls and reviews by Essity's Health and Safety Committee and studies of the safety climate at the company's production facilities. To further increase the focus on "near misses", from 2021 Essity will expand the measurement of confirmed accidents and the accident frequency rate to form a Total Recordable Injury Frequency Rate. The term "potential consequences" will thus be introduced to identify potential incidents that, in a worst-case scenario, could result in injury or fatality.

Essity's safety functions include procedures that apply to all production facilities. The safety functions are examined and quality assured every year. One of the most important processes is risk assessment, which includes risk identification, evaluation of exposure, potential consequences and risk reduction based on a hierarchy of control. Following this risk assessment process, Essity has identified critical tasks and using these the company's global experts have developed safety standards that include clear preventive countermeasures for several specific operations, such as "Yankee cylinder safety", "Working at height", "Traffic safety" and "Machinery safety".

As stated in Essity's global Health and Security Policy and incident response procedure, the company always encourages employees to set a good example when it comes to work safety and to share and use the tools available to report any dangerous conditions and unsafe behavior. In parallel, the management groups of the facilities review, manage, conclude and provide feedback to this reporting in a systematic manner.

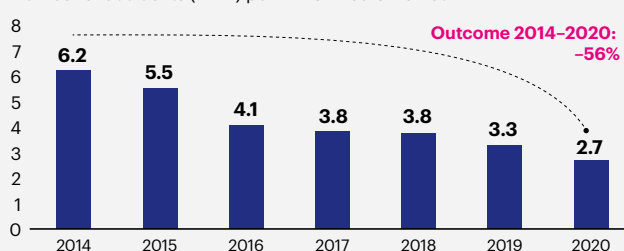
Accidents¹⁾

	2020	2019	2018	2017
Lost Time Accidents, LTA	137	177	214	210
Contractor Lost Time Accidents, CLTA	30	34	50	34
Days Lost due to Accidents, DLA	3,704	4,615	5,230	4,877
Accident Severity Rate (ASR): The DLA / LTA	27.0	26.1	24.4	23.2
Accident Frequency Rate, FR (LTA/1,000,000 WH)	2.7	3.3	3.8	3.8
Incident Rate, IR (LTA/200,000 WH)	0.5	0.7	0.8	0.8
Fatalities (employees)	–	–	–	–
Number of zero-accident sites	29	29	27	26
Number of sites included in reporting	81	86	85	85
Work hours, (1,000,000)	50.4	54.1	56.7	54.8

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

Accident frequency rate (FR)

Number of accidents ("LTA") per million hours worked



Read more about how Essity works with health and safety on pages 48–49. Read more about how the company works with health in relation to COVID-19 on page 19.

H14. CERTIFICATIONS

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

Certified volumes, Essity's main sites¹⁾, %

	2020	2019	2018	2017
ISO 9001	77	80	77	76
ISO 14001	81	75	80	85
OHSAS 18001	79	80	71	71

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

PC16. PROPOSED DISPOSITION OF EARNINGS

Annual accounts 2020

Disposition of earnings Essity Aktiebolag (publ)	
Non-restricted equity in the Parent company:	
retained earnings	83,552,076,909
net profit for the year	2,636,400,430
Total	86,188,477,339
The Board of Directors and the President propose:	
to be distributed to shareholders, a dividend of SEK 6.75 per share	4,740,811,801
to be carried forward	81,447,665,538 ¹⁾
Total	86,188,477,339

¹⁾ The company's equity would have been SEK 55,345,381 higher if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14a of the Swedish Annual Accounts Act.

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

Stockholm, February 18, 2021

Ewa Björling
Board member

Pär Boman
Chairman of the Board

Maija-Liisa Friman
Board member

Annemarie Gardshol
Board member

Magnus Groth
President,
CEO and
Board member

Susanna Lind
Board member,
employee representative

Bert Nordberg
Board member

Louise Svanberg
Board member

Örjan Svensson
Board member,
employee representative

Lars Rebien Sørensen
Board member

Barbara Milian Thoralfsson
Board member

Niclas Thulin
Board member,
employee representative

Our audit report was submitted on February 18, 2021
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

Auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Essity AB (publ) except for pages 51–61 and 119–127 for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 8–10 and 24–132 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent company as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover pages 51–61 and 119–127. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the Parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

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

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

Key Audit Matters

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

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

VALUATION OF GOODWILL AND OTHER INTANGIBLES ASSETS (TRADEMARKS)

Description	How our audit addressed this key audit matter
The value of goodwill and other intangibles (including trademarks) with an indefinite useful life as of 31 December 2020 amounted to 45.2 billion SEK. The company performs annual impairment tests as well as whenever impairment indicators have been identified. The recoverable amount for each cash-generating unit is determined as the value in use, which is calculated based on the discounted present value of future cash flows. Key assumptions in these calculations include future growth rates, gross profit development and the discount rate applied and are presented in Note D1 ("Intangible assets"). An impairment test is a complex process and contains a high degree of judgment regarding future cash flows and other assumptions, not least because it is based on estimates of how the company's business will be affected by future market developments and by other economic events. In addition, the underlying calculations are in themselves complex. Therefore, we have assessed valuation of goodwill and other intangibles assets with an indefinite useful life to be a key audit matter.	In our audit we have evaluated and reviewed key assumptions, the application of recognized valuation practices, discount rate (referred to as WACC – "Weighted Average Cost of Capital") and other source data that the company has applied. Our evaluation has included comparing to external data sources, such as forecasts of inflation or assessment of future market growth and by evaluating the sensitivity in the company's valuation model. We have specifically focused on the sensitivity in the calculations and have made an independent evaluation of whether there is a risk that reasonably probable events would give 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 2020 which amounted to 6.1 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2020. Our audit has also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2020. 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 2020 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 1–7, 11–23 and 133–141. 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 2020 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 52–61 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 36–51 and 119–127, 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 2, 2020 and has been the company's auditor since May 27, 2016.

Stockholm, February 18, 2021
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Statutory sustainability report

The report includes requirements placed on sustainability reporting as stated in the Annual Accounts Act.

Disclosure	Page	Disclosure	Page	Disclosure	Page	Disclosure	Page
GENERAL		SOCIAL CONDITIONS		RESPECT FOR HUMAN RIGHTS		ANTI-CORRUPTION	
Business model	15	Policy on social issues	44–45, 48–49	Policy for human rights	44, 48–50	Policy for work in anti-corruption	50
ENVIRONMENT		Risks and risk management on social issues	38, 48–49	Risks and risk management on human rights issues	36, 38, 44, 48–50	Risks and risk management in anti-corruption	36, 38
Policy on environmental issues	44–47	Targets and outcomes related to social issues	21, 23, 119–120, 126	Targets and outcomes related to human rights issues	119–120, 126	Targets and outcomes related to anti-corruption	119–120
Risks and risk management on environmental issues	36, 42–43						
Targets and outcomes related to environmental issues	21–23, 120–125						

Index

Essity's 2020 Annual and Sustainability Report has been prepared in accordance with Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) standards, in addition to the Task-force on Climate related Financial Disclosures (TCFD) framework. The following index shows which indicators are reported and where the information can be found. The Sustainability Report in accordance with GRI Standards has been reviewed by Ernst & Young AB.

GRI index

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TCFD Index

The following index shows where Essity provides information on climate-related risks and opportunities in accordance with the recommendations of the TCFD framework.

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CG-HP-250a.1	Revenue from products that contain REACH substances of very high concern (SVHC) (SEK) Comments: Reporting does not include Essity's medical products as these are outside the scope of the SASB Standard for Household and Consumer Products. Products from Essity's companies with significant non-controlling interests are excluded.	120
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CG-HP-250a.3	Discussion of process to identify and manage emerging materials and chemicals of concern	45, 120
CG-HP-250a.4	Revenue from products designed with green chemistry principles Comments: Not reported.	–
PACKAGING LIFECYCLE MANAGEMENT		
CG-HP-410a.1	(1) Total weight of packaging, (2) percentage made from recycled and/or renewable materials, and (3) percentage that is recyclable, reusable, and/or compostable	121
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ENVIRONMENTAL & SOCIAL IMPACTS OF PALM OIL SUPPLY CHAIN		
CG-HP-430a.1	Amount of palm oil sourced, percentage certified through the Roundtable on Sustainable Palm Oil (RSPO) supply chains as (a) Identity Preserved, (b) Segregated, (c) Mass Balance, or (d) Book & Claim Comments: In 2019, Essity sourced 970 tons of palm oil, of which 99.7% as c) mass-balance. Reported with a one-year delay.	–
CG-HP-000.A	Units of products sold, total weight of products sold (tons) Comments: Not reported	–
CG-HP-140a.2	Number of manufacturing facilities	119

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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)	44		Risk management
	203-2	Significant indirect economic impacts	22-23, 45-49		
Anti-corruption GRI 205: Anti-corruption 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50		Business ethics Transparency
	205-1	Operations assessed for risks related to corruption and the transparency-significant risks identified	119		
	205-3	Actions taken in response to confirmed incidents of corruption	119		
Anti-competitive Behavior GRI 206: Anti-competitive Behavior 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50		Business ethics Transparency
	206-1	Anti-trust and monopoly court cases	120		
ENVIRONMENT					
Energy GRI 302: Energy 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	22, 47		Climate change, Waste/circularity and plastics
	302-1	Energy consumption within the organization	123-124		
	302-4	Reduction of energy consumption	123-124		
Water GRI 303: Water and Effluents 2018	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	47		Water
	303-3	Water extraction	125		
Emissions GRI 305: Emissions 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	47		Climate change, Water, Waste/circularity and plastics, Fiber sourcing
	305-1	Direct greenhouse gas (GHG) emissions (Scope 1)	123-124		
	305-2	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	123-124		
	305-3	Other indirect greenhouse gas (GHG) emissions (Scope 3)	124-125		
	305-4	Greenhouse gas (GHG) emissions intensity	123		
	305-7	NO _x , SO _x , and other significant air emissions	123		
Effluents and Waste GRI 306: Effluents and Waste 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	46-47		Water, Waste/circularity and plastics
	306-2	Total weight of waste by type and disposal method	125		
SOCIAL PERFORMANCE INDICATORS					
Employment GRI 401: Employment 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	44, 48-49		Human capital
	401-1	New employee hires and employee turnover	126		
Labor/Management Relations GRI 402: Labor/Management Relations 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	44, 48-49		Human capital
	402-1	Minimum notice periods regarding operational changes	126		
Health and safety GRI 403: Occupational Health and Safety 2018	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	48-49, 127		Health and safety
	403-1 to 7				
Training and Education GRI 404: Training and Education 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	44, 48-49, 126		Human capital
	404-3	Percentage of employees receiving regular performance and career development reviews	126		
Diversity and equal opportunities GRI 405: Diversity and Equal Opportunity 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	44, 48-49		Human capital
	405-1	Composition of governance bodies and employee breakdown	48, 52-53, 58-59, 126		
	405-2	Ratio of basic salary and remuneration of women to men	126		
Non-discrimination GRI 406: Non-discrimination 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	48, 50		Business ethics Transparency
	406-1	Actions taken in incidents of discrimination	120		
Freedom of Association and Collective Bargaining GRI 407: Freedom of Association and Collective Bargaining 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	49-51		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⁾	Disclosure on management approach (DMA)	50		Business ethics Transparency
	408-1	Measures taken to eliminate child labor in risk areas	119-120	No Essity sites were identified as high-risk sites by Sedex.	
Forced or Compulsory Labor GRI 409: Forced or Compulsory Labor 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50		Business ethics Transparency
	409-1	Measures taken to eliminate forced or compulsory labor in risk areas	119-120	No Essity sites were identified as high-risk sites by Sedex.	
Human rights GRI 412: Human Rights Assessment 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50		Human rights Business ethics Transparency
	412-2	Employee training on human rights	119-120	Work in the area of human rights takes many different forms via training sessions, for example, through the Code of Conduct.	
Supplier Social Assessment GRI 414: Supplier Social Assessment 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50		Human rights Business ethics Transparency
	414-2	Significant potential and actual negative impacts in the supply chain and actions taken	121-122		
Marketing and Labeling GRI 417: Marketing and Labeling 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	16		Customer and consumer satisfaction, Safe products
	417-1	Product information required by procedures	46-47, 121		

¹⁾ GRI 103: Management Approach 2016

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

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

To Essity 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 2020. The scope of the Sustainability Report has been defined on pages 133–134.

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 119, 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 124. 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, 18 February 2021
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Outi Alestalo
Expert member of FAR

Remuneration report 2020

Essity Aktiebolag (publ)
to be presented at the 2021 AGM

INTRODUCTION

This report describes how the guidelines for remuneration of senior executives of Essity AB, as adopted by the 2020 AGM, were applied in 2020. The report also provides information about the remuneration of the President and the Executive Vice President and a summary of the company's variable remuneration programs and other benefits. The report has been prepared in accordance with the Swedish Companies Act and the Swedish Corporate Governance Code. More information about remuneration of senior executives is available in Note C (Employees) on pages 87–89 in the Annual and Sustainability Report for 2020. Information about the work of the Remuneration Committee in 2020 is presented in the Corporate Governance Report on pages 52–61 in the Annual and Sustainability Report for 2020.

The Board's remuneration is not covered in this report. Such remuneration is approved each year by the AGM and is reported in Note C3 on page 89 of the 2020 Annual Report.

1. Key events and key figures in 2020

The President summarizes the company's overall performance in his statement on pages 6–7 in the Annual and Sustainability Report for 2020.

2. The company's guidelines for remuneration of senior executives: purpose, scope and deviations

The remuneration guidelines, as unanimously adopted by the 2020 AGM, and the application of these are described on pages 87–88 of the Annual and Sustainability Report.

A prerequisite for the successful implementation of the company's business strategy and the protection of its long-term interests, including its sustainability, is that the company can recruit and retain qualified staff. To this end, the company must offer competitive and market-based remuneration and benefits.

According to the guidelines, total remuneration and benefits to senior executives, Total Reward, is to correspond to market practice and be competitive in the senior executive's field of profession. The remuneration is offered as fixed salary, variable remuneration, other benefits such as company car, pension and healthcare benefits.

The total remuneration is to be proportionate to the senior executive's position and authority and the responsibility these entail based on the financial scope and business impact, as well as market complexity. Total remuneration is decided on an individual basis at a level that, in combination with the various remuneration components, is considered to correspond to market practice and is competitive and takes into account performance. For the President and the Executive Vice President, a market comparison is therefore conducted with Swedish global industrial companies.

Table 1 below shows the total remuneration of senior executives in 2020 and the relationship between fixed and variable remuneration. Remuneration was not received from other Group companies.

3. Variable remuneration

Variable remuneration is divided into short and long-term portions that are related to financial or non-financial targets. The criteria are designed to contribute to the company's business strategy and long-term interests, including its sustainability. The sustainability targets are primarily focused on the Science Based Targets Scope 1 and 2, which aim to reduce emissions of carbon dioxide in energy utilization and purchased electricity.

3.1 Short-term incentive program

The program aims to support the achievement of the company's strategic business targets in the short and long term. The program's target structure consists of organizational targets and performance targets.

The organizational targets are set at a high level in the organization, business unit or Group level, as decided at Group level, and include a large number of employees, while the performance targets are directly linked to responsibility within an individual role.

The organizational targets consist of financial targets at Group level or business area targets and comprise operating cash flow, sales growth and operating margin.

Performance targets are financial targets or business strategy, non-financial targets. The performance targets are designed to be more closely linked to an individual role.

For the President and the Executive Vice President, organizational targets comprise the Group's adjusted operating margin, organic sales growth and operating cash flow. The performance targets for 2020 consisted of profit

Table 1. Total remuneration of the President and the Executive Vice President

SEK	Fiscal year	Fixed remuneration		Variable remuneration ¹⁾			Pension costs	Total salary and remuneration	Proportion fixed and variable remuneration (%)
		Fixed salary	Other benefits and remuneration	Short-term remuneration	Long-term remuneration	Extraordinary benefits			
Magnus Groth President and CEO	2020	15,000,000	112,291	5,670,000	0	0	6,269,391	27,051,682	79/21
Fredrik Rystedt CFO and Executive Vice President	2020	7,503,000	50,707	2,836,134	0	0	2,379,895	12,769,736	78/22

¹⁾ Variable remuneration pertains to 2020 but is paid in 2021.

Table 2. Outcome of the short-term program 2020 for the President and the Executive Vice President

Name, position	Target	Target's relative value	Target outcome	Remuneration (SEK)
Magnus Groth President and CEO	<i>Organizational target</i>			
	EBITA margin (adjusted)	21%	14.5%	1,575,000
	Operating cash flow (adjusted) ¹⁾	28%	SEK 17.1bn	2,100,000
	Organic sales growth	21%	-1.9%	0
	<i>Performance target</i>			
	Profit for the period (adjusted)	21%	SEK 11.8bn	1,315,500
Fredrik Rystedt CFO and Executive Vice President	Science Based Targets, Scope 1 and 2	9%	-11%	675,000
	<i>Organizational target</i>			
	EBITA margin (adjusted)	21%	14.5%	787,815
	Operating cash flow (adjusted) ¹⁾	28%	SEK 17.1bn	1,050,420
	Organic sales growth	21%	-1.9%	0
	<i>Performance target</i>			
	Profit for the period (adjusted)	21%	SEK 11.8bn	658,013
	Science Based Targets, Scope 1 and 2	9%	-11%	337,635

¹⁾ Change in working capital is replaced with average calculated change in working capital during the year.

for the period (adjusted) and sustainability targets. The organizational targets account for 70% and the performance targets 30%. See table 2.

If the targets are met in full, short-term remuneration amounts to 50% of fixed cash salary for the President and the Executive Vice President. This remuneration is not pensionable income.

3.2 Long-term incentive program

The aim of the long-term program is to promote the long-term positive earnings trend for the company and positive value appreciation for the company's shareholders.

The program is a cash-based program and aims through share ownership to create commonality between participants and the company's shareholders and reward long-term value creation. The program is also an important remuneration component in attracting and retaining key employees. The program is approved by the Board each year and participants in one program are not automatically eligible to participate in future programs.

The measurement period is three years. An invitation to take part in the program is sent during the third year of the measurement period. The degree to which the targets were met and any outcomes are determined at the end of the measurement period. The cost of any outcome within the program is charged to the third year.

The target for the long-term incentive program is based on the company's performance, measured as Total Shareholder Return (TSR). The TSR value comprises dividends, share performance and other returns that are compared with the performance of the MSCI Household Products Index, Consumer Staples, which is a weighted index of the corresponding TSR values of competitors and consumer companies during a three-year measurement period.

The starting point is the average TSR value during the final quarter before the start of the measurement period compared with the average TSR value during the final quarter of the measurement period.

Remuneration is paid if Essity's TSR value reaches the performance interval between -5 percentage points of the average TSR value of the comparison group for the same period (minimum outcome) and +5 percentage points of the average TSR value of the comparison group (maximum outcome).

Resulting remuneration is not pensionable income.

The company pays any outcome as cash remuneration, and the maximum outcome may amount to 50% of the fixed cash salary for the senior executive. Within a specified period, the senior executive must acquire Essity shares for at least half of the remuneration received, after deduction of income tax. If trading restrictions are in place, due to insider information, the acquisition must take place as soon as possible thereafter.

The senior executive must then not divest the shares acquired within the framework of the program until the shares have been retained for at least three years from the date of purchase.

If a participant resigns and is subsequently removed from the program before the end of the vesting period, entitlement to the remuneration proceeds is lost.

The outcome of the program is paid as cash remuneration to the senior executive, which means the program has no dilution effect or similar impact for shareholders and, as stated above, there is a ceiling for the maximum outcome.

4. Pension benefits

Pension benefits for senior executives shall be contribution-defined in accordance with the remuneration guidelines and limited to at most 40% of fixed salary with the exception of pension agreements signed before 2020.

For the President and the Executive Vice President, pension benefits are defined contribution with a premium of 40% of fixed cash salary in addition to the premium expenses for basic pension benefits in the ITP plan with retirement pension benefits limited to a maximum salary income of 7.5 income base amounts. The retirement age is 65.

5. Other benefits

Other benefits refers to company cars, luncheon vouchers and medical insurance.

6. Deviations and audit

No deviations from the guidelines took place and no exemptions from implementing the guidelines were made. The auditor's report on the company's compliance with the guidelines is available on the company's website¹⁾. No remuneration was refunded.

7. Comparative information between remuneration and performance

Comparative information about changes in total remuneration of senior executives and average remuneration per full-time employee in the Parent Company and the company's performance results is provided under Table 4.

The former SCA Group was split in 2017 into the forest products company SCA and the hygiene products company Essity, which is why comparative information is not reported before 2018.

Board of Directors, February 18, 2021

¹⁾ www.essity.com/company/corporate-governance/general-meeting/general-meeting-2021/

Table 3. Outcome of long-term program 2020 for the President and the Executive Vice President

Name, position	Target	Target's relative value	Target outcome (%)	Remuneration (SEK)
Magnus Groth President and CEO	Performance of the company's Total Shareholder Return (TSR) compared with MSCI Household Products Index, Consumer Staples' TSR, during the three-year measurement period.	100%	0.00%	0
Fredrik Rystedt CFO and Executive Vice President	Performance of the company's Total Shareholder Return (TSR) compared with MSCI Household Products Index, Consumer Staples' TSR, during the three-year measurement period.	100%	0.00%	0

Table 4 – Change in Total remuneration¹⁾ and the company's performance in recent fiscal years

Name, position	Total remuneration ¹⁾ in 2020 (SEKm)	Year-on-year change – 2020/2019		Year-on-year change – 2019/2018	
		(SEKm)	(%)	(SEKm)	(%)
Magnus Groth President and CEO	27.1	-6.4	-19%	7.6	29%
Fredrik Rystedt CFO and Executive Vice President	12.8	-3.4	-21%	2.4	17%
Average remuneration per employee (converted to full-time equivalents) in Essity Aktiebolag (publ). Remuneration of senior executives is excluded.	1.6	-0.2	-9%	0.3	18%
Company's performance – Profit for the period (adjusted)	11,805	1,039	10%	1,210	13%

¹⁾ Total remuneration comprises fixed salary, short and long-term variable remuneration, pension costs and other benefits.