

Financial statements including notes

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

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

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Consolidated income statement ^{IS}

	Note	2021		2020		2019	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Net sales	B1, B2	121,867	12,017	121,752	11,626	128,975	12,193
Cost of goods sold	B3	-86,628	-8,542	-82,132	-7,843	-90,876	-8,591
Items affecting comparability – cost of goods sold	B2, B3	-146	-14	-181	-17	-243	-23
Gross profit		35,093	3,461	39,439	3,766	37,856	3,579
Sales, general and administration	B3	-21,617	-2,132	-22,088	-2,109	-22,319	-2,110
Items affecting comparability – sales, general and administration	B2, B3	517	51	122	11	-470	-45
Share of profits of associates and joint ventures	B3	58	6	94	9	60	6
Operating profit before amortization of acquisition-related intangible assets (EBITA)		14,051	1,386	17,567	1,677	15,127	1,430
Amortization of acquisition-related intangible assets	B3	-852	-84	-809	-77	-778	-73
Operating profit		13,199	1,302	16,758	1,600	14,349	1,357
Financial income	E7	102	10	108	10	106	10
Financial expenses	E7	-764	-75	-1,066	-101	-1,415	-134
Profit before tax		12,537	1,237	15,800	1,509	13,040	1,233
Income taxes	B5	-2,727	-269	-4,053	-387	-2,828	-268
Profit for the period		9,810	968	11,747	1,122	10,212	965
Earnings attributable to:							
Owners of the Parent company		8,620	850	10,228	977	9,216	871
Non-controlling interests		1,190	117	1,519	145	996	94
Earnings per share – owners of the Parent company							
Earnings per share before and after dilution effects, SEK		12.27	1.2	14.56	1.4	13.12	1.2
Dividend per share, SEK		7.00 ²⁾		6.75		6.25	
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. The following average exchange rates were used;

10.14

10.47

10.58

²⁾ Board proposal.

Consolidated statement of comprehensive income ^{CI}

SEKm	2021	2020	2019
IS Profit for the period	9,810	11,747	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	-148	-202	482
Fair value through other comprehensive income	0	3	6
Income tax attributable to components in other comprehensive income	-13	279	52
Other comprehensive income that will not be reclassified to the income statement	-161	80	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	4,142	-9	-725
Transferred to profit or loss for the period	-1,363	473	112
Translation differences in foreign operations	5,480	-8,092	2,095
Gains/losses from hedges of net investments in foreign operations	-1,012	1,504	-168
Other comprehensive income from associated companies	15	-20	-14
Income tax attributable to components in other comprehensive income	-539	-415	179
Other comprehensive income that has been or may be reclassified subsequently to the income statement	6,723	-6,559	1,479
Other comprehensive income for the period, net of tax	6,562	-6,479	2,019
Total comprehensive income for the period	16,372	5,268	12,231
Total comprehensive income attributable to:			
Owners of the Parent company	14,294	4,588	11,006
Non-controlling interests	2,078	680	1,225

By operating segment SEKm	Net sales			Adjusted EBITA ¹⁾		
	2021	2020	2019	2021	2020	2019
Personal Care	46,639	46,095	48,340	7,098	7,161	6,746
Consumer Tissue	49,086	50,221	49,904	4,661	8,045	5,321
Professional Hygiene	26,143	25,418	30,731	2,710	3,317	4,463
Other	-1	18	0	-789	-897	-690
Total	121,867	121,752	128,975	13,680	17,626	15,840

¹⁾ Excluding items affecting comparability.

Consolidated statement of change in equity

SEKm	Share capital	TE8:1 Reserves	Retained earnings	Equity attributable to owners of the Parent company	Non-controlling interests	Total equity
Value, January 1, 2021	2,350	581	51,421	54,352	8,990	63,342
IS Profit for the period			8,620	8,620	1,190	9,810
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⁾			-148	-148		-148
Fair value through other comprehensive income		0		0		0
TE8:2 Income tax attributable to components in other comprehensive income		0	-13	-13		-13
Other comprehensive income that will not be reclassified to the income statement		0	-161	-161	-	-161
Items that have been or may be reclassified subsequently to the income statement						
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		4,142		4,142		4,142
Transferred to profit or loss for the period		-1,363		-1,363		-1,363
Acquired cash flow hedges		11	-11	-		-
Translation differences in foreign operations		4,592		4,592	888	5,480
Gains/losses from hedges of net investments in foreign operations		-1,012		-1,012		-1,012
Other comprehensive income from associated companies			15	15		15
TE8:2 Income tax attributable to components in other comprehensive income		-536	-3	-539		-539
Other comprehensive income that has been or may be reclassified subsequently to the income statement		5,834	1	5,835	888	6,723
Other comprehensive income for the period, net of tax		5,834	-160	5,674	888	6,562
CI Total comprehensive income for the period		5,834	8,460	14,294	2,078	16,372
Private placement to non-controlling interests			13	13	12	25
Acquisition of non-controlling interests			-4,042	-4,042	-1,919	-5,961
Transferred to cost of hedged investments		1		1		1
Revaluation effect upon acquisition of non-controlling interests			-3	-3		-3
CF OCF Dividend, SEK 6.75 per share ²⁾			-4,741	-4,741	-528	-5,269
BS Value, December 31	2,350	6,416	51,108	59,874	8,633	68,507
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
Other comprehensive income that will not be reclassified to the income statement		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 that has been or may be reclassified subsequently to the income statement		-5,703	-16	-5,719	-840	-6,559
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 ³⁾			-4,390	-4,390	-453	-4,843
BS Value, December 31	2,350	581	51,421	54,352	8,990	63,342

¹⁾ Including payroll tax.

²⁾ Dividend of SEK 6.75 per share pertains to owners of the Parent company. For the 2021 fiscal year, the Board of Directors has decided to propose a dividend of SEK 7.00 per share to the Annual General Meeting.

³⁾ Dividend of SEK 6.25 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, 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
Other comprehensive income that will not be reclassified to the income statement		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 that has been or may be reclassified subsequently to the income statement		1,263	-10	1,253	226	1,479
Other comprehensive income for the period, net of tax		1,267	523	1,790	229	2,019
CI Total comprehensive income for the period		1,267	9,739	11,006	1,225	12,231
Private placement to non-controlling interests			2	2	2	4
Divestment of non-controlling interests				-	27	27
Transferred to cost of hedged investments		14		14		14
CF OCF Dividend, SEK 5.75 per share ²⁾			-4,038	-4,038	-336	-4,374
BS Value, December 31	2,350	6,284	45,491	54,125	8,676	62,801

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 107.

Consolidated operating cash flow statement, supplementary disclosure OCF

Note	2021		2020		2019	
	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
IS Net sales	121,867	12,017	121,752	11,626	128,975	12,193
Operating expenses	-101,885	-10,047	-97,555	-9,315	-106,416	-10,060
Operating surplus	19,982	1,970	24,197	2,311	22,559	2,133
Adjustment for non-cash items	489	49	456	43	373	35
Operating cash surplus	20,471	2,019	24,653	2,354	22,932	2,168
Change in						
Inventories	-1,047	-103	-2,207	-211	-194	-18
Operating receivables	-2,084	-206	53	5	-1,949	-184
Operating liabilities	2,287	226	1,344	128	2,502	237
Change in working capital	-844	-83	-810	-78	359	35
Investments in non-current assets, net	-7,304	-720	-6,439	-615	-5,707	-540
Restructuring costs, etc.	-725	-72	-977	-93	-1,494	-141
Operating cash flow before investments in operating assets through leases	11,598	1,144	16,427	1,568	16,090	1,522
Investments in operating assets through leases	-480	-48	-409	-39	-451	-43
Operating cash flow	11,118	1,096	16,018	1,529	15,639	1,479
Financial items E7	-662	-65	-958	-91	-1,309	-124
Income taxes paid B5	-3,634	-358	-3,917	-374	-1,130	-107
Other	72	7	32	3	8	1
Cash flow from current operations	6,894	680	11,175	1,067	13,208	1,249
Acquisitions of Group companies and other operations F6	-11,813	-1,165	-747	-71	-143	-13
Divestments of Group companies and other operations F6	13	1	367	35	220	21
Cash flow from acquisitions and divestments	-11,800	-1,164	-380	-36	77	8
Cash flow before transactions with shareholders	-4,906	-484	10,795	1,031	13,285	1,257
Private placement to non-controlling interests	25	2	64	6	4	0
Dividend to non-controlling interests	-571	-56	-423	-40	-336	-32
EQ Dividend	-4,741	-467	-4,390	-419	-4,038	-382
Net cash flow	-10,193	-1,005	6,046	578	8,915	843
Net debt	2021		2020		2019	
	SEKm	EURm	SEKm	EURm	SEKm	EURm
Net debt, January 1²⁾	-42,688	-4,257	-50,940	-4,886	-54,404	-5,294
Changed opening balance for net debt due to IFRS 16 Leases ¹⁾	-	-	-	-	-3,786	-358
Net cash flow ¹⁾	-10,193	-1,005	6,046	578	8,915	843
Remeasurements to equity ¹⁾	-147	-15	-199	-19	488	46
Investments in non-operating assets through leases ¹⁾	-385	-38	-399	-38	-434	-41
Translation differences	-2,020	-104	2,804	108	-1,719	-82
Net debt, December 31²⁾	-55,433	-5,419	-42,688	-4,257	-50,940	-4,886

¹⁾ Translation to EUR is provided for the convenience of the reader. The following average exchange rates were used;

²⁾ Translation to EUR is provided for the convenience of the reader. The following closing exchange rates were used;

Consolidated cash flow statement **CF**

	Note	2021		2020		2019	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Operating activities							
IS Operating profit		13,199	1,302	16,758	1,600	14,349	1,357
T:1 Adjustment for non-cash items		7,212	711	7,812	746	8,193	774
Operating profit excluding non-cash items		20,411	2,013	24,570	2,346	22,542	2,131
Interest paid		-724	-71	-872	-83	-1,010	-95
Interest received		91	9	101	10	105	10
Other financial items		-39	-4	-205	-20	-420	-40
Change in liabilities relating to restructuring programs, etc.		-594	-59	-1,048	-100	-1,095	-104
Paid tax	B5	-3,634	-358	-3,917	-374	-1,130	-107
Cash flow from operating activities before changes in working capital		15,511	1,530	18,629	1,779	18,992	1,795
Cash flow from changes in working capital							
Change in							
Inventories		-1,047	-103	-2,207	-211	-194	-18
Operating receivables		-2,084	-206	53	5	-1,949	-184
Operating liabilities		2,287	226	1,344	128	2,502	237
Cash flow from operating activities		14,667	1,447	17,819	1,701	19,351	1,830
Investing activities							
Acquisitions of Group companies and other operations	F6	-4,427	-437	-668	-64	-143	-14
Divestments of Group companies and other operations	F6	16	2	65	6	5	0
T:2 Investments in intangible assets and property, plant and equipment		-7,301	-720	-6,587	-629	-5,908	-559
T:2 Paid interest capitalized in intangible assets and property, plant and equipment		-57	-6	-20	-2	-39	-4
Sale of property, plant and equipment		54	5	169	16	239	23
Loans granted to external parties		-418	-41	-54	-5	-62	-6
Cash flow from investing activities		-12,133	-1,197	-7,095	-678	-5,908	-560
Financing activities							
Private placement to non-controlling interests		25	2	64	6	4	0
Acquisition of non-controlling interests	F6	-5,961	-588	-	-	-	-
Proceeds from borrowings		19,444	1,918	6,474	618	2,448	231
Repayment of borrowings		-12,003	-1,184	-10,100	-964	-11,708	-1,107
Dividend to non-controlling interests		-571	-56	-423	-40	-336	-32
EQ Dividend		-4,741	-468	-4,390	-419	-4,038	-382
Cash flow from financing activities		-3,807	-376	-8,375	-799	-13,630	-1,290
Cash flow for the period		-1,273	-126	2,349	224	-187	-20
Cash and cash equivalents, January ¹²⁾		4,982	497	2,928	281	3,008	293
Translation differences in cash and cash equivalents		195	11	-295	-8	107	8
Cash and cash equivalents, December 31²⁾	E2	3,904	382	4,982	497	2,928	281

¹⁾ Translation to EUR is provided for the convenience of the reader. The following average exchange rates were used;

²⁾ Translation to EUR is provided for the convenience of the reader. The following closing exchange rates were used;

For information about the Group's liquidity reserve, refer to the Risk and risk management section on page 35.

T:1 Adjustment for non-cash items

SEKm	2021	2020	2019
Depreciation/amortization and impairment of non-current assets	7,391	7,671	7,529
Gain/loss on sale of assets	13	-44	24
Gain/loss on divestment and liquidation	21	-69	160
Non-cash items relating to efficiency program	-43	-19	128
Impact from settlement of pension liability	-	-187	-
Revaluation of previously owned shares upon acquisition	-706	-	-
Change in liability for ongoing competition case	-54	-	-
Change in provision for tax of a non-recurring nature on non-current assets	-20	-	-
Other	610	460	352
Total	7,212	7,812	8,193

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

SEKm	2021	2020	2019
Measures to raise the capacity level of operations (Strategic capital expenditures)	-2,860	-2,675	-1,431
Measures to uphold capacity level (Current capital expenditures)	-4,498	-3,932	-4,516
Total	-7,358	-6,607	-5,947

Change in liabilities attributable to financing activities

SEKm	Value at January 1	Cash flow, net	Acquisitions/divestments	Translation differences	Actuarial gains/losses	Effect of IFRS 16 Leases	Other changes	Value at December 31
2021								
Non-current and current financial liabilities	46,890	6,643	1,425	2,377	–	–	854 ¹⁾	58,189
Provisions for pensions including surplus in funded pension plans	2,511	228	–15	–162	148	–	–	2,710
Assets for hedging financial liabilities included in cash flow from financing activities	–1,387	570	–	–	–	–	–	–817
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	48,014	7,441	1,410	2,215	148	–	854	60,082
2020								
Non-current and current financial liabilities	52,062	–2,655	–205	–3,102	–	–	790 ²⁾	46,890
Provisions for pensions including surplus in funded pension plans	3,025	–532	–	3	202	–	–187 ³⁾	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 ⁴⁾	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

¹⁾ Other changes 2021 relate to change in accrued interest SEK –10m, change in liability related to financial leases in accordance with IFRS 16 of SEK 865m, of which SEK 480m relates to operating assets and SEK 385m to non-operating assets, and other items SEK –1m.

²⁾ 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.

³⁾ Other changes 2020 relate to the impact from settlement of pension liability SEK –187m.

⁴⁾ 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.

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

SEKm	2021	2020	2019
Cash flow from operating activities			
Cash flow from operating activities	14,667	17,819	19,351
Adjustments			
Investments in non-current assets, net	–7,304	–6,439	–5,707
Accrued interest	10	18	17
Investments in operating assets through leases	–480	–409	–451
Impact from settlement of pension liability	–	187	–
Other	1	–1	–2
Cash flow from current operations according to consolidated operating cash flow statement	6,894	11,175	13,208
Cash flow from investing activities			
Cash flow from investing activities	–12,133	–7,095	–5,908
Adjustments			
Investments in non-current assets, net	7,304	6,439	5,707
Loans granted to external parties	418	54	62
Acquisition of non-controlling interests	–5,961	–	–
Net debt in acquired and divested companies	–1,410	205	215
Paid/Non-paid financial receivable upon divestment of Group companies	–18	18	–
Other	–	–1	1
Cash flow from acquisitions and divestments according to consolidated operating cash flow statement	–11,800	–380	77
Cash flow for the period			
Cash flow for the period	–1,273	2,349	–187
Adjustments			
Repayment of borrowings	12,003	10,100	11,708
Proceeds from borrowings	–19,444	–6,474	–2,448
Loans granted to external parties	418	54	62
Net debt in acquired and divested operations	–1,410	205	215
Paid/Non-paid financial receivable upon divestment of Group companies	–18	18	–
Investments in operating assets through leases	–480	–409	–451
Accrued interest	10	18	17
Impact from settlement of pension liability	–	187	–
Other	1	–2	–1
Net cash flow according to consolidated operating cash flow statement	–10,193	6,046	8,915

BS

1) Translation to EUR is provided for the convenience of the reader. The following closing exchange rates were used:

A. Accounting principles and use of alternative performance measures

A1. General accounting principles, new accounting rules and basis of preparation

Reading instructions

General accounting principles **AP** and new accounting rules are presented below. Other accounting principles considered material by Essity are presented in conjunction with the respective note.

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

Company information

Essity Aktiebolag (publ), Corp. Reg. No. 556325-5511, is a public limited liability company whose shares are listed and traded on Nasdaq Stockholm (for more information, see The share on page 6).

The registered office of the company is Stockholm, Sweden, with the postal address of Box 200, SE-101 23 Stockholm, Sweden. The Group mainly conducts operations in the fields of hygiene and health.

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, 2021. 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 shall 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 is prepared in XHTML and consolidated financial statements prepared in accordance with IFRS shall be marked up using XBRL tags.

Essity applies the ESEF regulation as of January 1, 2021.

New or amended accounting standards 2021

A number of amended accounting standards published by the IASB are effective from January 1, 2021 following endorsement by the EU. Essity has applied these amendments, most of which have no impact on the Group's financial statements and are therefore not commented on. The amendments to standards that have had some impacts on Essity relates to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 linked to the Interest Rate Benchmark Reform.

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 develop-

ment of interest rate benchmarks. The effects on the financial statements are continuously evaluated. 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. The changes had no material impact on the Group's earnings or financial position.

New or amended accounting standards after 2021

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 new 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.

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 99
Pensions, C4 Remuneration after employment, page 93
Goodwill, D1 Intangible assets, page 96
Provisions, D6 Other provisions, page 99
Provision for doubtful receivables, E3 Trade receivables, page 102
Leases, G2 Leases, page 115
Essity's assessments and assumptions are presented in the respective notes.

Principles of consolidation

The Group's consolidated financial statements include the Parent company and its Group companies, which comprise of 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 109, F3 Investments in associates and joint ventures on page 110 and F4 Joint operations on page 112. 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 112. Intra-Group transactions have been eliminated.

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 consolidated 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.

A1. General accounting principles, new accounting rules and basis of preparation, cont.

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

Goodwill and fair value adjustments arising in connection with the acquisition of a foreign Group company are translated 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 incurred. 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. As these non-IFRS measures may differ from similar terms used by other companies, descriptions of the various measures used as a compliment to the financial information required according to IFRS are 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		2021	2020
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE			2019
EBITA		14,051	17,567
Items affecting comparability		-371	59
Adjusted EBITA		13,680	17,626
Average capital employed		114,163	112,473
Adjusted return on capital employed, ROCE		12.0%	15.7%
			13.8%

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 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		2021	2020	2019
CAPITAL EMPLOYED				
Total assets		175,050	154,645	162,295
Financial assets		-6,905	-9,530	-6,988
Non-current, non-interest-bearing liabilities		-8,056	-6,700	-7,269
Current, non-interest-bearing liabilities		-36,149	-32,385	-34,297
Capital employed		123,940	106,030	113,741
CAPITAL EMPLOYED				
Personal Care		47,085	40,505	44,268
Consumer Tissue		51,255	45,283	47,345
Professional Hygiene		24,518	20,915	22,996
Other		1,082	-673	-868
Capital employed		123,940	106,030	113,741
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 net sales to understand how effectively tied-up working capital is used.		
SEKm		2021	2020	2019
WORKING CAPITAL				
Inventories		19,339	16,383	15,764
Trade receivables		19,871	17,825	19,864
Other current receivables		5,787	2,173	2,113
Trade payables		-18,030	-14,791	-15,802
Other current liabilities		-15,807	-14,545	-14,998
Other		-3	101	-159
Working capital		11,157	7,146	6,782
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		2021	2020	2019
NET DEBT				
Surplus in funded pension plans		1,439	2,817	2,841
Non-current financial assets		412	738	694
Current financial assets		1,150	993	525
Cash and cash equivalents		3,904	4,982	2,928
Financial assets		6,905	9,530	6,988
Non-current financial liabilities		47,443	38,202	43,079
Provisions for pensions		4,149	5,328	5,866
Current financial liabilities		10,746	8,688	8,983
Financial liabilities		62,338	52,218	57,928
Net debt		55,433	42,688	50,940

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		
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 80) 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 80) 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		2021	2020	2019
Debt/equity ratio, multiple		0.81	0.67	0.81
Debt payment capacity, %		29	46	38
Adjusted debt payment capacity, %		45	45	40
Net debt/EBITDA		2.69	1.75	2.33
Net debt/Adjusted EBITDA		2.77	1.76	2.25

Performance measures		Various types of performance measures and margin measures expressed as a percentage of sales		
Non-IFRS performance measure	Description	Reason for use of the measure		
Organic sales growth	Underlying change in sales growth compared with the preceding period attributable to changed volume, price or product mix and excluding changes attributable to exchange rate effects, acquisitions and divestments.	This measure is of major importance for management in its monitoring of underlying organic sales growth driven by changes in volume, price and product mix for comparable units between different periods.		
Sales growth including organic sales growth and acquisitions	Sales growth that includes organic sales growth and acquisitions.	This measure shows how the company grows organically and through acquisitions.		
SEKm		2021	2020	2019
SALES GROWTH				
Personal Care				
Organic sales growth		2,308	-19	1,549
Acquisitions		626	165	37
Sales growth including organic sales growth and acquisitions		2,934	146	1,586
Divestments		-451	-143	-212
Exchange rate effects ¹⁾		-1,939	-2,248	1,623
Recognized change		544	-2,245	2,997
Consumer Tissue				
Organic sales growth		232	2,060	2,754
Acquisitions		380	-	53
Sales growth including organic sales growth and acquisitions		612	2,060	2,807
Divestments		-494	-	-
Exchange rate effects ¹⁾		-1,253	-1,743	1,972
Recognized change		-1,135	317	4,779
Professional Hygiene				
Organic sales growth		1,443	-4,501	1,010
Acquisitions		452	-	1
Sales growth including organic sales growth and acquisitions		1,895	-4,501	1,011
Divestments		-19	-	-
Exchange rate effects ¹⁾		-1,151	-812	1,703
Recognized change		725	-5,313	2,714
Group				
Organic sales growth		3,962	-2,439	5,297
Acquisitions		1,458	165	91
Sales growth including organic sales growth and acquisitions		5,420	-2,274	5,388
Divestments		-964	-143	-212
Exchange rate effects ¹⁾		-4,342	-4,806	5,299
Recognized change		114	-7,223	10,475
ORGANIC SALES GROWTH %				
Previous period sales		121,752	128,975	118,500
Organic sales growth		3,962	-2,439	5,297
Organic sales growth %		3.3%	-1.9%	4.5%
SALES GROWTH %				
Previous period sales		121,752	128,975	118,500
Sales growth including organic sales growth and acquisitions		5,420	-2,274	5,388
Sales growth including organic sales growth and acquisitions %		4.5%	-1.8%	4.5%

¹⁾ Consists solely of currency translation effects.

A2. Use of alternative performance measures, cont.

Performance measures, cont.				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				
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	2021	2020	2019			
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)						
Operating profit	13,199	16,758	14,349			
Amortization of acquisition-related intangible assets	852	809	778			
Depreciation/amortization	5,424	5,618	5,815			
Depreciation right-of-use assets	938	922	884			
Impairment	-2	125	79			
Items affecting comparability, net of impairment	179	197	-27			
EBITDA	20,590	24,429	21,878			
Items affecting comparability excluding depreciation/amortization and impairment	-550	-138	740			
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)	20,040	24,291	22,618			
SEKm	2021	2020	2019			
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)						
Operating profit	13,199	16,758	14,349			
Amortization of acquisition-related intangible assets	852	809	778			
Operating profit before amortization of acquisition-related intangible assets (EBITA)	14,051	17,567	15,127			
EBITA margin	11.5%	14.4%	11.7%			
Items affecting comparability, cost of goods sold	146	181	243			
Items affecting comparability, sales, general and administration	-517	-122	470			
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)	13,680	17,626	15,840			
Adjusted EBITA margin	11.2%	14.5%	12.3%			

A2. Use of alternative performance measures, cont.

Performance measures, cont.	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	
Items affecting comparability	Under items affecting comparability, Essity includes costs in connection with acquisitions, restructuring, impairment and other specific events that 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 88.	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		2021	2020
ADJUSTED OPERATING PROFIT			2019
Operating profit		13,199	16,758
Items affecting comparability		-371	59
Adjusted operating profit		12,828	16,817
Adjusted operating margin		10.5%	13.8%
			11.7%
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 affecting 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		2021	2020
ADJUSTED TAX			2019
Tax		-2,727	-4,053
Tax relating to items affecting comparability		-76	-1
Adjusted tax		-2,803	-4,054
			-2,987
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 77.	
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 77.	
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	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 an explanatory item in changes to net debt.	
SEKm		2021	2020
OPERATING CASH FLOW			2019
Personal Care			
Operating cash surplus	8,882	9,089	8,785
Change in working capital	-471	236	401
Investments in non-current assets, net	-1,779	-1,658	-1,866
Restructuring costs, etc.	-89	-101	-644
Operating cash flow before investments in operating assets through leases	6,543	7,566	6,676
Investments in operating assets through leases	-74	-81	-181
Operating cash flow	6,469	7,485	6,495
Consumer Tissue			
Operating cash surplus	7,379	10,817	8,107
Change in working capital	403	-548	-553
Investments in non-current assets, net	-3,563	-3,191	-2,239
Restructuring costs, etc.	-281	-418	-251
Operating cash flow before investments in operating assets through leases	3,938	6,660	5,064
Investments in operating assets through leases	-247	-205	-194
Operating cash flow	3,691	6,455	4,870
Professional Hygiene			
Operating cash surplus	4,782	5,479	6,589
Change in working capital	-705	-360	438
Investments in non-current assets, net	-941	-1,135	-1,402
Restructuring costs, etc.	-466	-677	-603
Operating cash flow before investments in operating assets through leases	2,670	3,307	5,022
Investments in operating assets through leases	-158	-124	-84
Operating cash flow	2,512	3,183	4,938

B. Sales and earnings

B1. Net sales – Revenues from contracts with customers

AP KAA Accounting policies and key assessments and assumptions

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

Revenue recognition

Essity primarily generates revenues from the sale of finished products to, for example, the retail sector, industries and the healthcare sector. Revenue from sales of services occurs to a certain extent but only accounts for a small portion of the Group's sales. Essity's operations and sales are divided into various segments that sell different products in several regions. The product portfolio is diversified but the principles for revenue recognition are the same for all segments. For a description of the products, see the section on Essity's three business areas, Personal Care, Consumer Tissue and Professional Hygiene on pages 22–27. Essity's contracts with customers primarily comprise framework agreements without established minimum volumes, which means that a binding contract according to IFRS 15 criteria does not arise until the customer places an order.

Performance obligations and timing of revenue recognition

Essity's performance obligations in the contracts involve providing the goods specified in the contracts. The performance obligations are satisfied and the revenue recognized when control of the products is passed to the customer. The timing of when control is passed to the customer is determined by the terms of delivery (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 only to 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 discounts 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 historically returned volumes have been low. Essity essentially grants customers no right of return except when the products are faulty. When the right arises to return goods sold, a liability is recognized for the repayment that is expected to be made and an asset is recognized for the right to recover the goods. Past experience is used to estimate the share of returns at the time of sale and revenue is only recognized for products that are not expected to be returned. The total transaction price is estimated at the amount that Essity deems will accrue to the company when the contract is signed with respect to volume discounts and any marketing subsidies, discount vouchers and returns. The transaction price is updated if the conditions forming the basis of the estimate have significantly changed.

Trade receivables

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

Contract liabilities

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

Assets that have arisen from expenses to fulfill contracts with customers

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

The tables below show consolidated net sales broken down by operating segment: Personal Care, Consumer Tissue and Professional Hygiene. Net sales in geographic markets reflects the perspective – sold to, which is based on sales to the countries where Essity has its customers, known as its “footprint.” See page 86 for further information.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
2021					
Revenue from contracts with customers					
Sale of finished products	46,613	49,073	26,112	–1	121,797
Sale of services	26	13	31	–	70
IS Total revenues from contracts with customers	46,639	49,086	26,143	–1	121,867
Geographic markets					
Europe	26,619	27,328	11,595	–1	65,541
North America	4,790	98	10,360	–	15,248
Latin America	8,455	5,821	1,639	–	15,915
Asia	4,850	15,378	1,854	–	22,082
Other	1,925	461	695	–	3,081
IS Total revenues from contracts with customers	46,639	49,086	26,143	–1	121,867

B1. Revenue from contracts with customers, cont.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total Group
Product category					
Incontinence Products	21,079	–	–	–	21,079
Baby Care	8,024	–	–	–	8,024
Feminine Care	8,378	–	–	–	8,378
Medical Solutions	8,702	–	–	–	8,702
Consumer Tissue	–	49,086	–	–	49,086
Professional Hygiene	–	–	26,143	–	26,143
Other	456	–	–	–1	455
IS Total revenues from contracts with customers	46,639	49,086	26,143	–1	121,867
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
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
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

Trade receivables and contractual liabilities

SEKm	Note	2021	2020	2019
TE3:1 Trade receivables	E3	19,871	17,825	19,864
Contractual liabilities – bonuses and discounts to customers	D5	6,253	6,070	6,038
Contractual liabilities – advance payments from customers		110	158	157

Trade receivables increased by SEK 187m in 2021 due to acquisitions but declined by SEK 24m due to divestments. Overall, trade receivables increased SEK 2,046m in 2021 due to increased sales compared with previous year and exchange rate effects.

Assets that have arisen from expenses to fulfill contracts with customers

SEKm	2021	2020	2019
TE3:2 Value, January 1	587	585	538
Costs for the year	374	473	408
Depreciation	–416	–375	–377
Translation differences	62	–96	16
Value, December 31	607	587	585

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 & Medical Solutions, Consumer Goods, Latin America and Professional Hygiene) and three global units (Global Supply Chain, Global Operational Services and Global Brand, Innovation & 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
2021						
REVENUES						
IS TB2:2 Net sales	46,639	49,086	26,143	-1	-	121,867
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	7,098	4,661	2,710	-789	-	13,680
Amortization of acquisition-related intangible assets	-837	-6	-9	-	-	-852
Adjusted operating profit/loss per operating segment	6,261	4,655	2,701	-789	-	12,828
TB2:1 Items affecting comparability	252	-29	213	-65	-	371
IS Operating profit/loss	6,513	4,626	2,914	-854	-	13,199
IS Financial income						102
IS Financial expenses						-764
IS Tax expense for the period						-2,727
IS Profit for the period						9,810
OTHER DISCLOSURES						
Assets	64,451	70,854	34,502	3,289	-5,190	167,906
BS Investments in associates and joint ventures	14	226	-1	-	-	239
Unallocated financial assets				6,905		6,905
BS Total assets	64,465	71,080	34,501	10,194	-5,190	175,050
Net investments/acquisitions	-8,822	-6,719	-3,034	-1,022	-	-19,597
Depreciation	-2,633	-2,679	-1,686	-216		-7,214
Expenses, in addition to depreciation/amortization, not matched by payments	3	73	413	-	-	489
NET SALES BY REGION						
Europe	57%	56%	44%			54%
North America	10%	0%	40%			12%
Latin America	18%	12%	6%			13%
Asia	11%	31%	7%			18%
Other	4%	1%	3%			3%
Total	100%	100%	100%			100%
Mature markets	65%	50%	79%			62%
Emerging markets	35%	50%	21%			38%
Total	100%	100%	100%			100%

B2. Segment reporting, cont.

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 Investments in associates and joint ventures	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	-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%

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 Investments in associates and joint ventures	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	-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%

B2. Segment reporting, cont.

TB2:1 Items affecting comparability allocated by operating segment

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other	Total
2021					
Items affecting comparability – cost of goods sold	16	-93	-69	-	-146
Items affecting comparability – sales, general and administration	236	64	282	-65	517
Total	252	-29	213	-65	371
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

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 2021, 2020 or 2019 from which it generated income that accounted for more than 10% of the company's net sales. Essity's ten largest customers account for 19.6% (22.5; 23.7) of the company's sales.

New segment division as of January 1, 2022: On October 22, 2021, Essity announced that the company had decided on new business areas as of January 1, 2022. The business areas will be Health & Medical, Consumer Goods and Professional Hygiene. These are aligned with the company's customer and sales channels and will lead to an expansion of the offerings to new and adjacent categories as well as extended service content on the basis of customer and consumer needs. The new areas support the company's new growth target through strategies for organic and acquisition-driven growth and aim to achieve higher growth and profit margins as well as lower capital tied up. The business areas will replace the current business areas of Personal Care, Consumer Tissue and Professional Hygiene.

B2a. Segment reporting, cont.

TB2:2 Group by country	Net sales – sold to ¹⁾						Net sales – sold by ¹⁾					
	2021		2020		2019		2021		2020		2019	
	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Sweden	3,087	2.5	3,049	2.5	2,774	2	3,569	2.9	3,485	2.9	3,338	3
EU excluding Sweden												
Germany	12,023	9.9	13,672	11.2	13,884	11	12,547	10.3	14,266	11.7	14,544	12
France	9,505	7.8	10,074	8.3	10,621	8	9,694	8.0	10,270	8.4	10,859	9
Spain	5,248	4.3	5,451	4.5	6,004	5	5,375	4.4	5,593	4.6	6,103	5
Netherlands	3,683	3.0	3,985	3.3	3,966	3	3,882	3.1	4,128	3.4	4,121	3
Italy	3,311	2.7	3,344	2.7	3,762	3	3,589	3.0	3,616	3.0	4,028	3
Austria	1,905	1.6	1,967	1.6	1,911	2	2,093	1.8	2,168	1.8	2,114	2
Finland	1,606	1.3	1,639	1.3	1,609	1	1,601	1.3	1,653	1.4	1,606	1
Belgium	1,506	1.2	1,700	1.4	1,719	1	1,626	1.3	1,795	1.5	1,832	1
Denmark	1,405	1.2	1,407	1.2	1,280	1	1,447	1.2	1,447	1.2	1,246	1
Hungary	1,046	0.9	1,067	0.9	1,100	1	1,138	0.9	1,148	0.9	1,169	1
Poland	998	0.8	976	0.8	1,032	1	1,069	0.9	1,035	0.8	1,111	1
Czech Republic	747	0.6	697	0.6	698	1	750	0.6	687	0.6	668	1
Ireland	575	0.5	577	0.5	564	1	522	0.4	507	0.4	494	1
Greece	494	0.4	528	0.4	494	1	270	0.2	306	0.2	328	0
Romania	454	0.4	415	0.3	442	0	408	0.3	393	0.3	384	0
Portugal	432	0.3	402	0.3	414	0	339	0.3	335	0.3	352	0
Croatia	352	0.3	330	0.3	357	0	–	–	–	–	–	–
Slovakia	309	0.2	328	0.3	305	0	483	0.4	474	0.4	476	0
Lithuania	252	0.2	236	0.2	230	0	252	0.2	236	0.2	230	0
UK ²⁾	–	–	749	0.6	9,279	7	–	–	761	0.6	9,394	7
Rest of EU excluding Sweden	685	0.6	733	0.6	767	1	319	0.3	336	0.3	355	0
Total EU excluding Sweden	46,536	38.2	50,277	41.3	60,438	48	47,404	38.9	51,154	42.0	61,414	48
Rest of Europe												
UK ²⁾	9,079	7.5	8,234	6.8	–	–	9,154	7.5	8,369	6.9	–	–
Russia	2,844	2.3	2,862	2.3	3,380	3	3,044	2.5	3,060	2.5	3,613	3
Switzerland	1,474	1.2	1,588	1.3	1,448	1	1,426	1.2	1,540	1.2	1,398	1
Norway	1,435	1.2	1,321	1.1	1,344	1	1,428	1.2	1,304	1.1	1,269	1
Ukraine	405	0.3	399	0.3	418	0	355	0.3	352	0.3	369	0
Turkey	219	0.2	262	0.2	378	0	222	0.2	280	0.2	411	0
Rest of Europe, excluding EU	462	0.4	429	0.4	439	0	–	–	–	–	–	–
Total Rest of Europe	15,918	13.1	15,095	12.4	7,407	5	15,629	12.9	14,905	12.2	7,060	5
TOTAL EUROPE	65,541	53.8	68,421	56.2	70,619	55	66,602	54.7	69,544	57.1	71,812	56
North America												
USA	13,275	10.9	13,016	10.7	16,132	12	13,104	10.8	12,880	10.6	16,104	12
Canada	1,969	1.6	1,962	1.6	2,198	2	2,002	1.6	1,987	1.6	2,227	2
Rest of North America	4	0.0	5	0.0	6	0	–	–	–	–	–	–
TOTAL NORTH AMERICA	15,248	12.5	14,983	12.3	18,336	14	15,106	12.4	14,867	12.2	18,331	14
Latin America												
Mexico	6,122	5.0	5,754	4.7	6,051	5	6,749	5.5	6,250	5.1	6,655	5
Colombia	3,808	3.1	3,594	3.0	4,144	3	3,959	3.2	3,750	3.1	4,317	4
Ecuador	1,405	1.2	1,505	1.3	1,652	1	1,388	1.1	1,487	1.2	1,623	1
Chile	1,014	0.8	879	0.7	991	1	1,024	0.8	883	0.7	1,000	1
Brazil	634	0.5	526	0.4	637	1	635	0.5	526	0.4	637	1
Peru	492	0.4	558	0.5	590	1	483	0.4	550	0.5	581	1
Dominican Republic	452	0.4	442	0.4	483	0	452	0.4	442	0.4	482	0
Costa Rica	435	0.4	486	0.4	513	0	549	0.5	588	0.5	535	0
Argentina	343	0.3	351	0.3	381	0	358	0.3	369	0.3	395	0
Nicaragua	179	0.1	171	0.1	185	0	–	–	–	–	–	–
Rest of Latin America	1,031	0.9	1,003	0.8	1,004	1	345	0.3	367	0.3	324	0
TOTAL LATIN AMERICA	15,915	13.1	15,269	12.6	16,631	13	15,942	13.0	15,212	12.5	16,549	13
Asia												
China	17,183	14.1	16,021	13.2	15,887	12	17,493	14.3	16,421	13.5	16,212	12
Malaysia	1,744	1.4	1,762	1.4	1,740	1	2,045	1.7	2,055	1.7	2,086	2
Japan	931	0.8	1,003	0.8	1,065	1	580	0.5	646	0.5	725	1
Taiwan	374	0.3	388	0.3	370	1	380	0.3	398	0.3	382	0
Singapore	311	0.3	321	0.3	283	0	253	0.2	263	0.2	234	0
India	191	0.1	153	0.1	234	0	187	0.2	155	0.1	235	0
Rest of Asia	1,348	1.1	1,308	1.1	1,508	1	665	0.6	663	0.6	737	1
TOTAL ASIA	22,082	18.1	20,956	17.2	21,087	16	21,603	17.8	20,601	16.9	20,611	16
Rest of the world												
Australia	1,689	1.4	865	0.7	865	1	1,453	1.2	468	0.4	419	0
New Zealand	722	0.6	168	0.1	168	0	674	0.6	132	0.1	141	0
South Africa	293	0.2	263	0.2	344	1	382	0.3	352	0.3	457	0
Morocco	61	0.1	147	0.1	166	0	–	–	70	0.1	78	0
Other Rest of the world	316	0.3	680	0.6	759	0	105	0.1	506	0.4	577	1
TOTAL REST OF THE WORLD	3,081	2.5	2,123	1.7	2,302	2	2,614	2.1	1,528	1.3	1,672	1
Total Group	121,867	100.0	121,752	100.0	128,975	100	121,867	100.0	121,752	100.0	128,975	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 excluding 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.

³⁾ From 2020 on one decimal is included in % numbers.

B2b. Segment reporting, cont.

TB2:2 Group by country	Average number of employees									Non-current assets ¹⁾		
	2021	Of whom men, %	Of whom women, %	2020	Of whom men, %	Of whom women, %	2019	Of whom men, %	Of whom women, %	2021 SEKm	2020 SEKm	2019 SEKm
Sweden	2,148	52	48	2,120	53	47	1,984	55	45	4,818	4,192	3,520
EU excluding Sweden												
Germany	4,722	72	28	4,637	73	27	4,559	73	27	24,981	25,320	26,050
France	2,442	66	34	2,489	67	33	2,482	68	32	7,807	7,380	7,807
Netherlands	1,255	82	18	1,244	82	18	1,240	82	18	3,423	3,267	3,211
Spain	1,169	74	26	1,137	76	24	1,171	75	25	3,355	3,386	3,669
Slovakia	928	61	39	905	62	38	896	63	37	642	685	736
Italy	900	74	26	901	75	25	883	75	25	3,756	3,313	3,439
Poland	828	71	29	842	71	29	840	73	27	1,550	1,586	1,922
Austria	559	80	20	581	81	19	604	81	19	813	808	864
Belgium	466	80	20	482	80	20	472	81	19	657	668	700
Finland	307	71	29	303	73	27	296	74	26	1,034	1,097	1,211
Denmark	118	42	58	112	45	55	107	43	57	34	38	42
Hungary	113	35	65	113	35	65	129	39	61	12	9	13
Czech Republic	62	47	53	60	48	52	58	47	53	5	7	8
Greece	45	53	47	45	53	47	46	54	46	12	14	17
Romania	38	39	61	37	41	59	33	36	64	13	14	19
Lithuania	27	44	56	26	46	54	24	50	50	2	3	4
Portugal	22	50	50	20	60	40	20	60	40	76	75	79
Ireland	13	62	38	14	64	36	14	64	36	31	32	32
Croatia	11	36	64	11	36	64	14	29	71	1	1	2
UK ²⁾	-	-	-	134	75	25	1,614	76	24	-	-	5,742
Rest of EU excluding Sweden	17	29	71	16	25	75	16	25	75	2	2	3
Total EU excluding Sweden	14,042	71	29	14,109	72	28	15,518	73	27	48,206	47,705	55,570
Rest of Europe												
UK ²⁾	1,636	75	25	1,479	75	25	-	-	-	5,566	5,094	-
Russia	1,325	62	38	1,299	62	38	1,295	61	39	1,269	1,090	1,592
Turkey	114	74	26	125	77	23	134	80	20	24	39	60
Norway	88	48	52	85	49	51	84	50	50	11	13	15
Ukraine	67	40	60	70	43	57	71	42	58	21	5	5
Switzerland	37	30	70	35	29	71	34	29	71	86	80	140
Rest of Europe, excluding EU	5	100	-	5	100	-	4	100	-	-	-	-
Total Rest of Europe	3,272	68	32	3,098	68	32	1,622	61	39	6,977	6,321	1,812
TOTAL EUROPE	19,462	68	32	19,327	69	31	19,124	70	30	60,001	58,218	60,902
North America												
USA	3,137	71	29	3,215	71	29	3,214	71	29	19,187	16,529	19,283
Canada	287	65	35	286	64	36	306	65	35	588	537	598
Rest of North America	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL NORTH AMERICA	3,424	71	29	3,501	71	29	3,520	71	29	19,775	17,066	19,881
Latin America												
Colombia	3,787	67	33	3,676	67	33	3,889	66	34	2,062	2,025	2,345
Mexico	3,220	68	32	3,007	69	31	3,027	70	30	4,721	4,366	5,207
Ecuador	1,048	71	29	1,086	69	31	1,163	66	34	618	542	626
Brazil	521	54	46	546	58	42	606	60	40	398	411	644
Chile	438	72	28	420	73	27	422	71	29	567	596	650
Argentina	358	65	35	369	66	34	323	65	35	35	26	40
Dominican Republic	266	67	33	266	67	33	268	66	34	224	200	236
Peru	138	54	46	140	40	60	130	37	63	336	343	439
Costa Rica	93	55	45	92	54	46	89	55	45	6	11	15
Nicaragua	-	-	-	-	-	-	3	67	33	-	-	-
Rest of Latin America	57	42	58	54	43	57	45	49	51	3	3	3
TOTAL LATIN AMERICA	9,926	67	33	9,656	67	33	9,965	66	34	8,970	8,523	10,205
Asia												
China	9,863	57	43	9,493	57	43	9,287	57	43	19,249	16,309	16,906
Malaysia	1,370	44	56	1,371	43	57	1,332	43	57	1,867	1,570	1,345
India	324	91	9	330	91	9	389	88	12	70	70	91
Taiwan	241	62	38	246	62	38	259	62	38	698	616	663
Japan	122	41	59	122	41	59	134	46	54	68	68	80
Singapore	37	29	71	34	29	71	33	28	72	2	3	16
Rest of Asia	510	62	38	515	62	38	359	53	47	631	601	709
TOTAL ASIA	12,467	57	43	12,111	56	44	11,793	56	44	22,585	19,237	19,810
Rest of the world												
South Africa	390	43	57	404	43	57	449	41	59	635	643	791
Australia	211	48	52	104	37	63	104	38	62	4,411	839	932
Tunisia	173	89	11	866	89	11	887	92	8	-	-	119
New Zealand	166	59	41	42	24	76	43	28	72	2,112	3	6
Other Rest of the world	56	71	29	73	51	49	95	63	37	38	-	17
TOTAL REST OF THE WORLD	996	56	44	1,489	69	31	1,578	71	29	7,196	1,485	1,865
Total Group	46,275	65	35	46,084	65	35	45,980	66	34	118,527	104,529	112,663

¹⁾ Information about non-current assets by country refers to intangible assets and property, plant and equipment according to Notes D1 and D2 and right-of-use assets according to Note G2.

²⁾ The UK is included in the group EU excluding 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	2021	2020	2019
IS Cost of goods sold	-86,628	-82,132	-90,876
IS Sales, general and administration	-21,617	-22,088	-22,319
IS Share of profits of associated companies and joint ventures	58	94	60
IS Amortization of acquisition-related intangible assets	-852	-809	-778
IS TB3:1 Items affecting comparability	371	-59	-713
Total	-108,668	-104,994	-114,626

Refer also to the Description of costs section on page 142.

Operating expenses by type of cost

SEKm	Note	2021	2020	2019
TB3:2 Other income		1,074	1,066	1,028
Change in inventory of finished products and products in progress ¹⁾		1,033	87	-962
Raw materials and consumables ¹⁾		-45,564	-41,384	-43,800
Personnel costs ¹⁾	C1	-22,639	-22,914	-23,888
TB3:3 Other operating expenses ¹⁾		-35,872	-34,318	-39,399
Amortization of intangible assets ¹⁾	D1	-1,089	-1,140	-1,111
Depreciation of property, plant and equipment ¹⁾	D2, G2	-6,125	-6,209	-6,366
Impairment of intangible assets ¹⁾	D1	-87	-54	-19
Impairment of property, plant and equipment ¹⁾	D2	-126	-276	-152
Reversal of impairment of property, plant and equipment ¹⁾	D2	36	8	119
Share in profits of associated companies and joint ventures ¹⁾		6	71	84
Revaluation of previously owned shares in associated companies ¹⁾	F6	706	-	-
Gain/loss on divestment and liquidation ^{1) 2)}		-21	69	-160
Total		-108,668	-104,994	-114,626

¹⁾ Including items affecting comparability.

²⁾ Including 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	2021	2020	2019
Impairment of inventory of finished products and products in progress, net	-18	-9	-70
Impairment of trade receivables	-	-	-10
Personnel costs	20	187	-445
Other operating expenses	-85	-86	-79
Impairment of intangible assets, net	-87	-54	-16
Impairment of property, plant and equipment, net	-92	-143	43
Share in profits of associated companies from impairment and divestments	-52	-23	24
Revaluation of previously owned shares in associated companies	706	-	-
Gain/loss on divestment and liquidation	-21	69	-160
Total	371	-59	-713

Distribution of items affecting comparability

SEKm	2021
Revaluation of previously owned shares in associated companies	706
Change in liability for ongoing competition case	54
Costs for restructuring measures	-202
Transaction costs related to acquisitions	-124
Other	-63
Total	371

Distribution of items affecting comparability, previous periods

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

TB3:2 Other income

SEKm	2021	2020	2019
Sales not included in core operations	1,074	1,066	1,028
Total	1,074	1,066	1,028

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	2021	2020	2019
Transport expenses	-9,861	-9,107	-9,360
Energy costs ¹⁾	-5,642	-4,493	-5,125
Purchased finished goods for resale	-3,062	-2,564	-6,811
Marketing costs	-6,704	-6,745	-6,604
Repairs and maintenance	-3,065	-2,966	-2,927
IT, telephony and lease of premises	-851	-974	-903
Other operating expenses, production	-3,012	-3,759	-4,092
Other operating expenses, distribution, sales and administration	-3,641	-3,516	-3,481
Other	-34	-194	-96
Total	-35,872	-34,318	-39,399

¹⁾ After deduction for revenues from energy in the amount of SEK 294m (186; 184).

Other disclosures

Exchange rate effects had a positive impact of SEK 3m (-11; -70) on operating profit.

Other disclosures¹⁾

SEKm	2021	2020	2019
Government grants received	82	241 ²⁾	47
Research and development	-1,471	-1,559	-1,485

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	2021	2020	2019
EY			
Audit assignments	-65	-69	-70
Auditing activities other than the audit assignment	-0	-2	-2
Tax consultancy services	-4	-2	-2
Other assignments	-4	-1	-3
Total EY	-73	-74	-77
Other auditors			
Audit assignments	-15	-15	-18
Tax consultancy services	-9	-14	-10
Other assignments	-4	-2	-8
Total other auditors	-28	-31	-36
Total	-101	-105	-113

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	2021	%	2020	%	2019	%
Current tax						
Income tax for the period	2,699	21.5	3,603	22.8	2,764	21.2
Adjustments for prior periods ¹⁾	-12	-0.1	139	0.9	1,020	7.8
TB5:1 Current tax expense	2,687	21.4	3,742	23.7	3,784	29.0
Deferred tax						
Changes in temporary differences	350	2.8	467	3.0	275	2.1
Adjustments for prior periods ¹⁾	-278	-2.2	-45	-0.3	-1,252	-9.6
Revaluations	-32	-0.3	-111	-0.7	21	0.2
TB5:1 TB5:2 TB5:3 Deferred tax expense	40	0.3	311	2.0	-956	-7.3
IS Tax expense	2,727	21.7	4,053	25.7	2,828	21.7

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 statutory tax rate in the country.

Tax expense	SEKm	2021	%	2020	%	2019	%
IS Profit before tax		12,537		15,800		13,040	
IS Tax expense		2,727	21.7	4,053	25.7	2,828	21.7
Expected tax expense		2,883	23.0	3,789	24.0	3,036	23.3
Difference		-156	-1.3	264	1.7	-208	-1.6
The difference is explained by:							
Permanent differences between accounting and taxable result							
Effects of subsidiary financing ¹⁾		49	0.4	57	0.4	-165	-1.3
Effects of acquisitions and divestments ²⁾		-158	-1.3	-19	-0.1	53	0.4
Taxes relating to profit-taking ³⁾		103	0.8	32	0.2	27	0.2
Other permanent effects ⁴⁾		44	0.3	1	-0.0	102	0.8
Taxes related to prior periods ⁵⁾		-290	-2.3	94	0.6	-232	-1.8
Changes in the value of deferred tax assets ⁶⁾		35	0.3	44	0.3	37	0.3
Changes in tax rates ⁷⁾		61	0.5	55	0.3	-30	-0.2
Total		-156	-1.3	264	1.7	-208	-1.6

¹⁾ The effects are principally attributable to financing of the operation in Germany for the years 2021 and 2020. The year 2019 pertains to the financing effects in the USA, Germany and France.

²⁾ Relate mainly to effects of the Asaleo Care acquisition of SEK -190m. Year 2019 relates essentially to divested operations in Turkey and Brazil.

³⁾ Mainly attributable to taxation at source on profit-taking to the Netherlands from Canada and Russia of SEK 51m.

⁴⁾ The year 2019 primarily comprises BEAT effects in the USA of SEK 125m.

⁵⁾ Taxes related to prior periods relate mainly to adjustments in Italy and Mexico to the remeasurement of the tax amount on non-current assets of SEK -102m and SEK -77m, respectively, as well as a tax effect in the USA relating to loss carry-forwards of SEK -64m. For the year 2020, the largest share relates to adjustments in Mexico, Germany and the Netherlands. The year 2019 relates mainly to the effect of a remeasurement of the tax amount on non-current assets in Mexico of SEK -253m.

⁶⁾ The change in value of deferred tax assets relates mainly to unrecognized tax loss carryforwards in Brazil of SEK 46m, the corresponding effect in 2020 was SEK 50m. For the year 2019, the effects relate mainly to unrecognized tax loss carryforwards in Brazil of SEK 109m, as well as the increase in a tax credit in Poland of SEK -69m.

⁷⁾ Relates mainly to the revaluation of a deferred tax liability in the UK of SEK 18m and in Colombia of SEK 12m. The year 2020 relates mainly to the revaluation of SEK 87m concerning pension obligations in the UK.

B5. Income taxes, cont.

Current tax liability

Current tax liability (+), current tax asset (-)				
SEKm	2021	2020	2019	
Value, January 1	1,541	1,687	-1,556	
TB5:1 Current tax expense	2,687	3,742	3,784	
OCF CF TB5:1 Paid tax	-3,634	-3,917	-1,130	
Other changes from acquisitions, divestments and reclassifications ¹⁾	-19	40	670	
Translation differences	49	-11	-81	
Value, December 31	624	1,541	1,687	
BS of which current tax liability	1,576	2,301	2,432	
BS of which current tax asset	952	760	745	

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	236	335	571	-575
Netherlands	359	-2	357	-856
China	386	-47	339	-508
UK	116	52	168	-119
Russia	168	-1	167	-62
USA	128	25	153	-108
Colombia	165	-14	151	-18
Mexico	203	-102	101	-167
Poland	43	40	83	-46
Canada	68	6	74	-51
France	28	30	58	-106
Ecuador	57	-1	56	-45
Belgium	52	3	55	-72
Norway	47	0	47	-39
Austria	45	1	46	-71
Denmark	41	0	41	-36
Slovakia	27	14	41	-19
Switzerland	35	0	35	-36
Japan	32	0	32	-48
Finland	46	-15	31	-70
Peru	32	-2	30	-39
Czech Republic	24	1	25	-28
Australia	46	-29	17	-45
New Zealand	21	-18	3	-4
Germany	120	-134	-14	-166
Italy	3	-83	-80	-34
Other countries ¹⁾	159	-19	140	-266
OCF CF IS Total	2,687	40	2,727	-3,634

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	6,992	-152	563	272	7,675
Property, plant and equipment	1,585	-249	62	119	1,517
Non-current financial assets	501	43	-421	24	147
Current assets	-356	440	14	-21	77
Provisions	-753	-202	597	-35	-393
Liabilities	-1,796	179	176	-50	-1,491
Tax credits and tax loss carryforwards	-1,317	15	-23	-87	-1,412
Other	-529	-34	9	-4	-558
Total¹⁾	4,327	40	977	218	5,562

¹⁾ The net closing deferred tax liability comprises **BS** deferred tax assets of SEK 2,012m (1,823; 2,539) and **BS** deferred tax liabilities of SEK 7,574m (6,150; 6,545).

²⁾ Other changes mainly include deferred tax recognized directly in other comprehensive income within equity according to IAS 19 Employee Benefits of SEK 13m and IFRS 9 Financial Instruments of SEK 536m, in addition to effects from acquisitions and divestments of SEK 428m.

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 2020	4,006	311	229	-219	4,327
BS 2019	5,114	-956	-234	82	4,006

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 -1,412m.

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 4,597m (4,342; 6,412), gross, at December 31, 2021.

The change in unrecognized tax loss carryforwards for the period includes SEK 147m in exchange rate effects, SEK -2m that has expired and SEK -127m that was either utilized or recognized. The tax value of unrecognized tax loss carryforwards amounted to SEK 1,256m (1,145; 1,791). 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	2021	2020	2019
Within 1 year	14	13	90
2 years	46	43	62
3 years	64	13	53
4 years	8	66	99
5 years or more	451	426	1,108
Indefinite life	4,014	3,781	5,000
Total	4,597	4,342	6,412

C. Employees

C1. Personnel costs

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

Personnel costs				
SEKm	Note	2021	2020	2019
Salaries and remuneration		-15,854	-16,228	-16,825
TC2:1 of which Group Executive Management Team	C2	-91	-103	-141
of which Board of Directors	C3	-10	-9	-9
Pension costs		-1,498	-1,215	-1,411
of which defined benefit pension costs	C4	-401	-240	-468
of which other pension costs		-1,097	-975	-943
Other social security costs		-3,835	-3,849	-4,194
Other personnel costs		-1,452	-1,622	-1,458
Total¹⁾		-22,639	-22,914	-23,888

¹⁾ Items affecting comparability of SEK 20m (187; -445) 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 required to purchase shares in Essity for half of the LTI outcome paid after tax and must not divest these shares for a period of three years.

Annual General Meeting guidelines for remuneration of senior executives

These guidelines shall govern remuneration to 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, measured as TSR value (TSR, Total Shareholder Return: the value shall be the composed of the total dividend and other returns as well as the share performance) over a three-year period. This value shall, for the same period, be compared with the MSCI Household products Index, Consumer Staples, which is a weighted index of competing companies and consumer companies' corresponding TSR value. A maximum outcome requires that the performance of the Essity share exceeds the benchmark index by more than 5% over the 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 common 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 normally 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 of 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 of 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.

C2. Remuneration of senior executives, cont.

Application of, and deviation from, the guidelines

The Board may decide to temporarily deviate from the guidelines, wholly or in part, if there are special reasons for so doing in an individual case and deviation is necessary to satisfy the company's long-term interests, including its sustainability. The duties of the Remuneration Committee include preparing board decisions on remuneration issues, including decisions regarding deviations from the guidelines. With respect to employment relationships governed by rules other than Swedish rules, appropriate adjustments shall take place with respect to pension benefits and other benefits to ensure compliance with such rules or local practice, whereupon the overarching purpose of these guidelines shall be attained as far as possible.

The guidelines shall not take precedence over mandatory terms or employment law legislation or collective agreements. Nor shall they apply to already executed agreements. These guidelines shall apply commencing at the 2021 Annual General Meeting and until further notice.

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 5–7% of fixed salary for 2021. STI resulted in variable remuneration corresponding to 6–51% of fixed salary for the Business Unit Presidents. Based on 2021 salaries of 13 senior executives, the maximum outcome of variable remuneration would result in 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 2021

SEK	Fixed salary	Variable remuneration ¹⁾	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	15,750,000	1,053,281 ²⁾	120,921	16,924,202
Other senior executives (12 people)	60,316,371	8,989,018 ²⁾	5,169,945	74,475,334
Total	76,066,371	10,042,299	5,290,866	91,399,536

¹⁾ Variable remuneration covers the 2021 fiscal year but is paid in 2022.

²⁾ Of which LTI program SEK 0.

Pension costs 2021 ¹⁾

SEK	
President and CEO Magnus Groth ²⁾	6,555,851
Other senior executives (12 people) ³⁾	27,658,471
Total	34,214,322

¹⁾ The pension costs pertain to the costs that affected profit for 2021, excluding special payroll tax.

²⁾ Outstanding pension obligations amount to SEK 23,363,801.

³⁾ Outstanding pension obligations amount to SEK 104,737,446.

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. Five other executives are covered by corresponding defined contribution pension benefits with an annual premium of approximately 30–40% and pension age of 65. One senior executive is covered by ITP1. 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 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.

C2. Remuneration of senior executives, cont.

Pension costs 2020 ¹⁾

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

¹⁾ The pension costs pertain to the costs that affected profit for 2020, excluding special payroll tax.
²⁾ Outstanding pension obligations amount to SEK 25,707,004.
³⁾ Outstanding pension obligations amount to SEK 95,565,302.

Pension costs 2019 ¹⁾

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

¹⁾ The pension costs pertain to the costs that affected profit for 2019, excluding special payroll tax.
²⁾ Outstanding pension obligations amount to SEK 24,062,615.
³⁾ Outstanding pension obligations amount to SEK 84,529,681.

TC2:1 Remuneration and other benefits during the year 2019

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

¹⁾ Variable remuneration covers the 2019 fiscal year but is paid in 2020.
²⁾ Of which LTI program SEK 6,900,000.
³⁾ Of which LTI program SEK 27,804,376.

Obligations in relation to former presidents and CEOs

For former presidents and CEOs, Essity has outstanding, non-funded obligations amounting to SEK 161m. 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

Remuneration to non-executive Board members of Essity Aktiebolag (publ) refers to the fees approved at the AGM on March 25, 2021 for the period until the next

AGM in March 2022. No remuneration is paid to the President and CEO and other employees.

SEK	Board fee			Audit Committee fee			Remuneration Committee fee			Total		
	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019
Pär Boman (Chairman)	2,445,000	2,310,000	2,310,000	280,000	275,000	275,000	150,000	150,000	150,000	2,875,000	2,735,000	2,735,000
Ewa Björling	815,000	770,000	770,000							815,000	770,000	770,000
Majja-Liisa Friman	0	770,000	770,000							0	770,000	770,000
Annemarie Gardshol	815,000	770,000	770,000							815,000	770,000	770,000
Louise Svanberg	815,000	770,000	770,000				120,000	115,000	115,000	935,000	885,000	885,000
Bert Nordberg	815,000	770,000	770,000	280,000	275,000	275,000	120,000	115,000	115,000	1,215,000	1,160,000	1,160,000
Barbara Milian Thoralfsson	815,000	770,000	770,000	400,000	380,000	380,000				1,215,000	1,150,000	1,150,000
Torbjörn Lööf	815,000	0	0							815,000	0	0
Lars Reben Sørensen	815,000	770,000	770,000							815,000	770,000	770,000
Total	8,150,000	7,700,000	7,700,000	960,000	930,000	930,000	390,000	380,000	380,000	9,500,000	9,010,000	9,010,000

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.

KAA Key assessments and assumptions

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

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

Provisions for pensions and similar obligations

SEKm	2021	2020	2019
TC4:2 Defined benefit obligations	32,698	32,717	38,510
TC4:3 Fair value of plan assets	-35,249	-31,260	-36,372
TC4:4 Effect of asset ceiling	5,261	1,054	887
TC4:1 Provision for pensions, net	2,710	2,511	3,025

Surpluses in funded plans recognized as financial non-current assets amounted to **BS** SEK 1,439m (2,817; 2,841) on the balance sheet date and provisions for pensions totaled **BS** SEK 4,149m (5,328; 5,866). Defined benefit obligations include obligations in an amount of SEK 2,751m (2,908; 2,889) 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	10	9,395	8,599	18,004	-22,113	4,144	35	18
Sweden	1,970	1,130	1,310	4,410	-3,920	1,117	1,607	19
Germany	2,443	759	1,603	4,805	-5,377	-	-572	17
USA	479	1,103	2,057	3,639	-3,486	-	153	12
Other	1,489	4	347	1,840	-353	-	1,487	12
Total	6,391	12,391	13,916	32,698	-35,249	5,261	2,710	

Costs for the period for defined benefit plans

SEKm	2021	2020	2019
Current service cost, after deduction for premiums paid by the employees	-422	-428	-528
Past service cost	8	-2	16
Pension-tax expense	-38	-41	-36
Remeasurement, net	13	-11	-26
Net interest income/expense	-49	-34	-93
Pension costs before effects of settlements	-488	-516	-667
Settlements	-	201	70
Pension costs after effects of settlements	-488	-315	-597

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

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 trust and assets are held separately, according to UK law. Surpluses in the pension fund remain in the fund's assets. An asset ceiling has from 2021 been imposed on the surplus in the plan under the rules in IAS 19, since Essity is of the view that it will be unable to absorb the current surplus. The plan is obligated to meet the minimum funding level according to an agreement with the pension plan.

Sweden

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

Germany

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

USA

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

C4. Remuneration after completion of employment, cont.

TC4:2 Defined benefit obligations

SEKm	2021	2020	2019
Value, January 1	32,717	38,510	33,082
Current service cost	426	429	540
Interest expense	424	608	895
Past service cost	-8	2	-16
Pension-tax expense	38	41	36
Settlements and transfers	-17	-57	-293
Reclassification	-	-5,488	-
Acquisitions and divestments	-15	-	-1
Benefits paid	-1,248	-1,323	-1,398
Pension taxes paid	-11	-11	-10
Remeasurement: financial assumptions	-1,907	3,345	4,668
Remeasurement: demographic assumptions	169	-248	37
Remeasurement: experience-based assumptions	60	-567	-538
Pension taxes pertaining to remeasurement	-131	-49	68
Translation differences	2,201	-2,475	1,440
Value, December 31	32,698	32,717	38,510

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

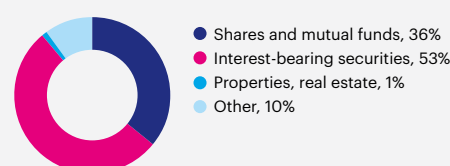
Remeasurements in the defined benefit obligations comprise changes in financial assumptions, such as changes to the discount rate, any changes in demographic assumptions and experience-based deviations. Experience-based deviations include for example unexpectedly high or low employee turnover or salary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

TC4:3 Plan assets

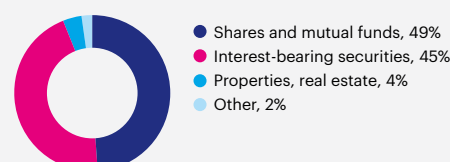
SEKm	2021	2020	2019
Fair value, January 1	-31,260	-36,372	-29,648
Interest income	-427	-586	-818
Contributions by plan participants	-4	-1	-12
Contributions by the employer	-405	-1,048	-1,292
Benefits paid, excluding settlements	1,237	1,312	1,396
Benefits paid for settlements	5	54	253
Reclassification	-	5,301	-
Return in excess of recognized interest income	-2,068	-2,434	-4,881
Administrative expenses for pension obligations	36	36	44
Translation differences	-2,363	2,478	-1,414
Fair value, December 31	-35,249	-31,260	-36,372

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

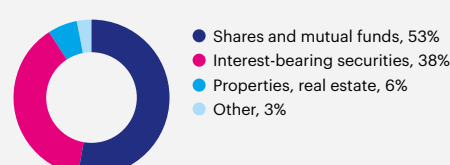
The plan assets are distributed according to the following classes of assets, 2021:



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:



At the balance sheet date 97% (94; 93) 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, 2021.

TC4:4 Effect of asset ceiling

SEKm	2021	2020	2019
Value, January 1	1,054	887	707
Interest expense	52	12	16
Other changes to asset ceiling	4,025	155	164
Translation differences	130	-	-
Value, December 31	5,261	1,054	887

During 2021 the surplus in the UK pension plan was subject to an asset ceiling under the rules of IAS 19, since Essity is of the view that it will be unable to absorb the current surplus. The value at the end of the period pertaining to the effect of the asset ceiling relates to funds in the UK pension plan amounting to SEK 4,144m (-; -) and funds in one Swedish foundation that can be used for possible future undertakings for early retirement for certain categories of employees amounting to SEK 1,117m (1,054; 887).

TC4:5 Principal actuarial assumptions

	Sweden	UK	Germany	Netherlands ¹⁾	USA
2021					
Discount rate	1.62	1.89	0.75	N/A	2.81
Expected salary increase rate	3.00	N/A	3.00	N/A	N/A
Expected inflation	2.00	3.25	1.75	N/A	N/A
Life expectancy, men ²⁾	22	22	20	N/A	20
Life expectancy, women ²⁾	25	25	24	N/A	21
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

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%	1,327
Price inflation, including salary inflation +0.25%	-1,059
Life expectancy +1 year	-1,483

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

Multiemployer plans

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

Budgeted contributions

The budgeted contributions for the company's defined benefit pension plans for 2022 are calculated at SEK 371m. Contributions for multiemployer plans for 2022 are calculated at SEK 40m.

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 can only be recognized when they have been acquired through a separate transaction or through the acquisition of an entire business that includes one or several 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 3-25 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 3-20 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 3-15 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 5-10 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 assessments and assumptions. 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 sales growth, including organic sales growth and acquisitions, of above 5%, less acquisition-related growth, and is 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	2021	2020	2019
Accumulated costs	32,324	32,324	34,846
Accumulated impairment	–	–	–265
Total	32,324	32,324	34,581
Value, January 1	32,324	34,581	33,553
Company acquisitions	3,398	603	–
Company divestments	–	–36	–15
Reclassifications	–7	–	–
Translation differences	2,088	–2,824	1,043
BS Value, December 31	37,803	32,324	34,581

Intangible assets excluding goodwill

SEKm	Trademarks			Technologies, Customer relations and similar rights			Capitalized development costs			Total Other intangible assets		
	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019
Accumulated costs	14,726	13,401	14,686	14,015	10,963	12,305	577	532	513	29,318	24,896	27,504
Accumulated amortization	–645	–506	–559	–6,773	–5,731	–5,301	–209	–180	–132	–7,627	–6,417	–5,992
Accumulated impairment	–	–	–468	–88	–86	–94	–140	–51	–	–228	–137	–562
Total	14,081	12,895	13,659	7,154	5,146	6,910	228	301	381	21,463	18,342	20,950
Value, January 1	12,895	13,659	13,546	5,146	6,910	7,478	301	381	360	18,342	20,950	21,384
Investments ³⁾	–	–	–	834	459	138	38	43	58	872	502	196
Sales and disposals	–	–	–44	–	–1	–	–1	–	–	–1	–1	–44
Company acquisitions	729	50	–	1,812	185	–	–	1	–	2,541	236	–
Company divestments	–	–	–	–2	–2	–	–	–	–	–2	–2	–
Reclassifications ²⁾	1	–	1	51	–1,161	88	2	–1	–1	54	–1,162	88
Amortization ¹⁾	–122	–137	–109	–932	–946	–958	–35	–57	–44	–1,089	–1,140	–1,111
Impairment	–	–	–	–	–	–19	–87	–54	–	–87	–54	–19
Translation differences	578	–677	265	245	–298	183	10	–12	8	833	–987	456
Value, December 31	14,081	12,895	13,659	7,154	5,146	6,910	228	301	381	21,463	18,342	20,950
TD1:1 Emission allowances, net value										343	232	232
BS Value, December 31 including emission allowances										21,806	18,574	21,182

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.

³⁾ In 2021, interest expenses were capitalized in Capitalized development costs in the amount of SEK 9m. The average interest rate used was 2%.

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. The testing showed that no impairment was needed for 2021, 2020 or 2019. 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 –87m.

Distribution by operating segment

SEKm	Goodwill			Trademarks			WACC, before tax %		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Personal Care	19,537	16,678	17,545	8,837	8,016	8,544	8.2	8.2	8.6
Consumer Tissue	10,326	9,264	9,894	5,244	4,879	5,108	8.0	8.2	8.1
Professional Hygiene	7,940	6,382	7,142	–	–	7	6.8	6.2	7.3
Total	37,803	32,324	34,581	14,081	12,895	13,659			

TD1:1 Emission allowances

SEKm	2021	2020	2019
Accumulated costs	343	232	232
Value, January 1	232	232	91
Emission allowances received	210	187	174
Purchases	93	30	51
Settlement with the government	–201	–206	–84
Translation differences	9	–11	0
Value, December 31	343	232	232

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, costs for running-in and start-up are included in the cost for properties and production facilities. 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
Buildings	15–50
Energy plants	15–30
Pulp and paper mills	10–25
Land improvements	10–20
Converting machines, other machinery	7–18
Office equipment	5–10
Vehicles	4–5
Tools	3–10
Computers	3–5

Property, plant and equipment

SEKm	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019
Accumulated costs	25,759	23,004	24,855	4,248	4,052	4,403	88,109	78,399	85,802	6,209	5,320	3,716
Accumulated depreciation	-12,045	-10,776	-10,986	-657	-599	-649	-55,880	-48,672	-52,516	-	-	-1
Accumulated impairment	-283	-283	-258	-24	-23	-25	-1,440	-1,401	-1,261	-31	-2	-1
Total	13,431	11,945	13,611	3,567	3,430	3,729	30,789	28,326	32,025	6,178	5,318	3,714
Value, January 1	11,945	13,611	12,974	3,430	3,729	3,626	28,326	32,025	30,136	5,318	3,714	4,937
Investments	318	124	208	44	9	34	1,426	1,127	1,808	4,614	4,882	3,629
Sales and disposals	-12	-6	-37	-3	-4	-1	-41	-57	-89	-	-4	-1
Company acquisitions	67	28	-	10	9	-	799	42	-	55	-	-
Company divestments	-	-38	-	-	-18	-	-	-73	-81	-	-	-3
Reclassifications	1,045	235	818	2	11	-4	3,014	2,551	4,045	-4,115	-2,844	-5,037
Depreciation ¹⁾	-782	-802	-841	-36	-41	-44	-4,369	-4,444	-4,597	-	-	-
Impairment	-	-42	-6	-	-	-2	-97	-234	-144	-29	-	-
Reversal of impairment	32	-	70	-	-	22	4	8	27	-	-	-
Translation differences	818	-1,165	425	120	-265	98	1,727	-2,619	920	335	-430	189
Value, December 31	13,431	11,945	13,611	3,567	3,430	3,729	30,789	28,326	32,025	6,178	5,318	3,714

¹⁾ Included primarily in Cost of goods sold.

Total property, plant and equipment

SEKm	2021	2020	2019
Accumulated costs	124,325	110,775	118,776
Accumulated depreciation	-68,582	-60,047	-64,152
Accumulated impairment	-1,778	-1,709	-1,545
Total	53,965	49,019	53,079
Value, January 1	49,019	53,079	51,673
Investments	6,402	6,142	5,679
Sales and disposals	-56	-71	-128
Company acquisitions	931	79	-
Company divestments	-	-129	-84
Reclassifications	-54	-47	-178
Depreciation ¹⁾	-5,187	-5,287	-5,482
Impairment	-126	-276	-152
Reversal of impairment	36	8	119
Translation differences	3,000	-4,479	1,632
Value, December 31	53,965	49,019	53,079
TG2:1 Right-of-use assets, net value	4,953	4,612	3,821
BS Value, December 31 including right-of-use assets	58,918	53,631	56,900

¹⁾ Included primarily in Cost of goods sold.

Impairment losses for the year totaling SEK 126m are related mainly to restructuring measures in Consumer Tissue in Finland as well as ongoing measures in Personal Care in Germany.

Reversal of impairments totaling SEK 36m is mainly related to previous impairments at production facilities in Consumer Tissue in Russia.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 44m (18; 39) and in construction in progress in an amount of SEK 7m (1; 1). The average interest rate used was 2% (3; 4).

Contract obligations relating to the acquisition of property, plant and equipment amounted to SEK 3,178m (3,131; 3,836) at year end.

D3. Inventories

AP Accounting principles

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

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

Inventories

SEKm	2021	2020	2019
Raw materials and consumables	6,064	5,890	4,749
Spare parts and supplies	2,103	1,783	1,862
Products in progress	1,725	1,343	1,424
Finished products	9,435	7,363	7,717
Advance payments to suppliers	12	4	12
BS Total	19,339	16,383	15,764

Impairment of inventories amounted to SEK 484m (302; 78), of which SEK 18m (9; 70) was recognized in conjunction with restructuring as an item affecting comparability, refer to Note B3 Operating expenses on page 88.

D4. Other current receivables

Other current receivables			
SEKm	2021	2020	2019
VAT receivables	1,113	701	702
Prepaid expenses and accrued income	588	529	568
Suppliers with debit balance	155	123	56
Receivables for electricity and gas	195	207	137
Receivables from authorities	61	58	90
Derivatives	3,310	185	20
Other receivables	365	370	540
BS Total	5,787	2,173	2,113

D5. Other liabilities

Other liabilities			
SEKm	2021	2020	2019
Other non-current liabilities			
Derivatives	27	6	42
Other non-current liabilities	59	99	141
BS Total	86	105	183
Of which items that fall due for payment later than within five years			
	21	20	20
Other current liabilities			
Derivatives	397	108	282
TD5:1 Accrued expenses and prepaid income	12,370	11,592	11,720
VAT liabilities	1,148	1,075	1,042
Other operating liabilities	1,892	1,770	1,954
BS Total	15,807	14,545	14,998

TD5:1 Accrued expenses and prepaid income

SEKm	2021	2020	2019
Bonus and discounts to customers	6,253	6,070	6,038
Accrued vacation pay liability	801	712	699
Accrued social security costs	341	417	440
Other liabilities to personnel	894	1,325	1,538
Other items	4,081 ¹⁾	3,068	3,005
Total	12,370	11,592	11,720

¹⁾ The increase in 2021 is primarily attributable to an increased liability for energy costs compared with the preceding year.

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 2021

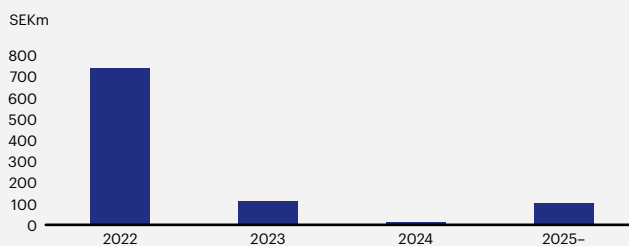
SEKm	Efficiency programs	Environ-ment	Legal disputes	Other	Total
Value, January 1	400	208	340	245	1,193
Provisions	50	310	15	44	419
Company acquisitions	-	-	-	23	23
Utilizations	-128	-201	-14	-43	-386
Reclassifications	-	-	-	-2	-2
Dissolutions	-74	-	-49	-26	-149
Translation differences	8	-7	27	6	34
Value, December 31	256	310	319	247	1,132
Provisions comprise:					
BS Short-term component					736
BS Long-term component					396

Other provisions, previous periods

SEKm	2020	2019
Value, January 1	1,606	3,166
Provisions	429	912
Divestments of Group companies and other operations	-	-2
Utilizations	-696	-1,403
Reclassifications	-14	-949 ¹⁾
Dissolutions	-64	-157
Translation differences	-68	39
Value, December 31	1,193	1,606

¹⁾ The reclassification in 2019 consists primarily of the reclassification of tax risks to tax liability, see Note B5 Income taxes on page 89.

Distribution of other provisions by maturity¹⁾



¹⁾ The timing of provisions totaling SEK 166m cannot be assessed and are therefore not included in the above.

Of the provisions for the period for Environment, SEK 310m pertains to a liability for carbon dioxide emissions, which will be settled in 2022.

Utilizations for the period concerning Efficiency programs are mainly attributable to restructuring measures at the production facilities of Professional Hygiene and Consumer Tissue.

The provisions recognized at the end of the period attributable to Efficiency programs relate mainly to restructuring measures at production facilities of Consumer Tissue. Provisions for Environment pertain mainly to a liability for carbon dioxide emissions. Provisions for Legal disputes mainly consist of reserves for a case in Latin America. Other provisions mainly comprise reserves in Italy in connection with, among other items, grants received for future investment commitments.

E. Capital structure and financing

E1. Financial instruments by category and measurement level

AP Accounting principles

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

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

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

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

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

Fair value measurement

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

The fair value of non-current loans measured at prevailing market interest rates is presented in Note E4 Financial liabilities on page 103. 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 99m 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 104.

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 104.

E1. Financial instruments by category and measurement level, cont.

Financial instruments by category and measurement level

SEKm	Note	Measurement level	2021	2020	2019
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	2	90	52
Derivatives – Current financial assets	E2	2	372	450	302
Derivatives – Other current receivables	D4	2	538	31	12
Total			912	571	366
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	20,387	10,615	13,167
Current financial liabilities	E4	2	14	5,038	–
Derivatives – Non-current financial liabilities	E4	2	86	2	95
Derivatives – Current financial liabilities	E4	2	524	610	486
Derivatives – Other current liabilities	D5	2	25	70	48
Total			21,036	16,335	13,796
Loan and trade receivables measured at amortized cost					
Non-current financial assets	E2	–	25	18	20
Current financial assets	E2	–	620	231	155
Trade receivables	E3	–	19,871	17,825	19,864
Cash and cash equivalents	E2	–	3,904	4,982	2,928
Total			24,420	23,056	22,967
Financial assets measured at fair value through other comprehensive income					
Non-current financial assets	E2	1	99	96	96
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	23,779	24,861	26,796
Non-current lease liabilities	E4	–	2,891	2,724	3,021
Current financial liabilities	E4	–	9,084	2,206	7,560
Current lease liabilities	E4	–	880	807	851
Accounts payables	–	–	18,030	14,791	15,802
Total			54,664	45,389	54,030
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	286	534	526
Other non-current assets	–	2	656	79	3
Other current receivables	D4	2	2,772	154	8
Current financial assets	E2	2	158	312	68
Total			3,872	1,079	605
Non-current financial liabilities	E4	2	300		
Other non-current liabilities	D5	2	27	6	42
Current financial liabilities	E4	2	244	27	86
Other current liabilities	D5	2	372	38	234
Total			943	71	362

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 102.

Measurement levels

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

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

Financial instruments in other notes to the balance sheet

Financial instruments in other notes to the balance sheet							
SEKm	Note	2021		2020		2019	
		Financial instruments	Of which derivatives	Financial instruments	Of which derivatives	Financial instruments	Of which derivatives
Assets							
Financial assets, cash and cash equivalents	E2	5,466	818	6,713	1,386	4,147	948
Other non-current assets		656	656	79	79	3	3
Trade receivables	E3	19,871		17,825	–	19,864	–
Other current receivables	D4	3,310	3,310	185	185	20	20
Total		29,303	4,784	24,802	1,650	24,034	971
Liabilities							
Financial liabilities	E4	58,189	1,154	46,890	639	52,062	667
Other non-current liabilities	D5	27	27	6	6	42	42
Accounts payables		18,030		14,791	–	15,802	–
Other current liabilities	D5	397	397	108	108	282	282
Total		76,643	1,578	61,795	753	68,188	991

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		
	2021	2020	2019
Non-current financial assets			
Financial assets measured at fair value through other comprehensive income	99	96	96
Financial assets measured at amortized cost			
Loan receivables, other	25	18	20
Derivatives	288	624	578
BS Total	412	738	694
Current financial assets			
Financial assets measured at amortized cost			
Financial assets	183	165	155
Loan receivables, other	437	66	–
Derivatives	530	762	370
BS Total	1,150	993	525
Cash and cash equivalents			
Cash and bank balances	3,284	4,074	2,315
Current investments <3 months	620	908	613
BS CF Total	3,904	4,982	2,928
Total financial assets, cash and cash equivalents	5,466	6,713	4,147

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 93. 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.

E2. Financial assets, cash and cash equivalents, cont.

Cash and cash equivalents at December 31, 2021 include SEK 3,115m (2,737; 1,946) 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 1,719m (1,454; 1,254).

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	2021	2020	2019	
Trade receivables, gross	20,169	18,063	20,177	
Provision for doubtful receivables	-298	-238	-313	
BS TE3:1 Total	19,871	17,825	19,864	

TE3:1 Analysis of credit risk exposure in trade receivables

SEKm	2021	2020	2019
Trade receivables net after provision for doubtful receivables	19,871	17,825	19,864
Whereof: overdue			
< 30 days	1,432	1,316	1,615
30-90 days	669	761	775
> 90 days	364	361	404
Trade receivables, overdue	2,465	2,438	2,794

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 2021, Essity's ten largest customers accounted for 19.6% (22.5; 23.7) of Essity's sales. The single largest customer accounted for 3.0% (2.7; 4.4) of sales. Confirmed credit losses on trade receivables in 2021 amounted to 0.02% (0.02; 0.01) of net sales. Of the outstanding trade receivables on the balance sheet date 2021, the ten largest customers accounted for 22.2% (23.9; 23.2). 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 2021; 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 2021 year-end accounts.

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 1,056m (723; 1,251). Of this amount, SEK 4m (8; 13) relates to the category trade receivables overdue.

Provision for doubtful receivables				
SEKm	2021	2020	2019	
Value, January 1	-238	-313	-276	
Provision for expected credit losses	-83	-38	-67	
Confirmed losses	18	25	14	
Decrease due to divestments	0	22	-	
Decrease due to reversal of provisions for expected credit losses	18	31	27	
Translation differences	-13	35	-11	
Value, December 31	-298	-238	-313	

The expense for the period for doubtful receivables amounted to SEK -65m (-7; -40).

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	2021	2020	2019	
Non-current financial liabilities				
Bond issues	38,559	28,486	31,690	
Derivatives	386	2	95	
Non-current lease liabilities	2,891	2,724	3,021	
Other non-current loans with maturities > 1 year < 5 years	5,590	6,971	7,944	
Other non-current loans with maturities > 5 years	17	19	329	
BS Total	47,443	38,202	43,079	

Financial liabilities

SEKm	2021	2020	2019
Current financial liabilities			
Amortization within one year	63	219	255
Bond issues	–	5,037	–
Derivatives	768	637	572
Current lease liabilities	880	807	851
Loans with maturities of less than one year	8,895	1,833	7,137
Accrued financial expenses	140	155	168
BS Total¹⁾	10,746	8,688	8,983
Total financial liabilities	58,189	46,890	52,062
Fair value of financial liabilities excluding leases	53,925	43,947	49,106

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

Borrowing

Essity has a Euro Medium Term Note (EMTN) program with a program amount of EUR 6,000m (SEK 61,376m) for issuing bonds in the European capital market. As of December 31, 2021, a nominal EUR 3,930m (3,440; 3,134) was outstanding in public and bilateral issues with a remaining maturity of 5.2 years (3.4; 3.8).

Public bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate, %
Notes EUR 500m	2023	5,285	5,305	2.50
Notes EUR 600m	2024	6,126	6,274	1.13
Notes SEK 2,150m	2025	2,159	2,128	0.42
Notes SEK 850m	2025	842	839	0.50
Notes EUR 300m	2025	3,168	3,145	1.13
Notes EUR 500m	2027	5,090	5,327	1.63
Notes EUR 600m	2029	5,940	5,718	0.25
Notes EUR 300m	2030	2,990	2,898	0.50
Notes EUR 700m	2031	6,959	6,528	0.25
Total		38,559	38,162	

	Carrying amount, SEKm	Fair value, SEKm
Non-current financial liabilities		
Other non-current loans with maturities > 1 year < 5 years	5,590	5,634
Other non-current loans with maturities > 5 years	17	16
Total	5,607	5,650

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

Commercial paper program¹⁾

Program size	Issued SEKm
Commercial paper SEK 15,000m	–
Commercial paper EUR 1,200m	2,250
Total	2,250

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

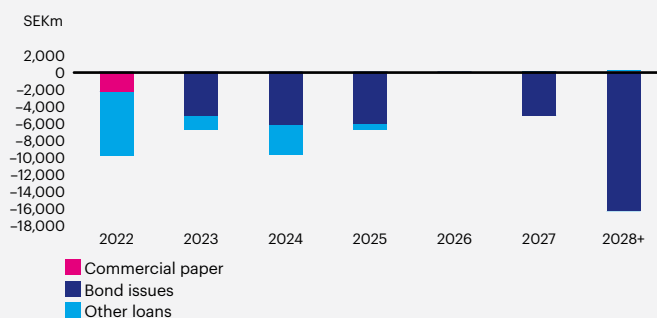
Essity has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. Contracted bilateral credit facilities with banks are used to supplement these syndicated bank facilities.

Credit facilities

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 59m	2024	602	–	602
	EUR 941m	2025	9,628	–	9,628
	EUR 62m	2025	639	–	639
	EUR 938m	2026 ¹⁾	9,590	–	9,590
Total			20,459		20,459

¹⁾ The syndicated credit facility expiring in 2026 was extended in January 2022 by EUR 938m until 2027. The remaining EUR 62m falls due in 2025.

Maturity profile of gross debt¹⁾



¹⁾ Gross debt includes accrued interest in the amount of SEK 265m.

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 55,433m (42,688; 50,940). For a description of the methods used by Essity to manage its refinancing risk, refer to the Risks and risk management section on page 35.

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 35.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
2021				
Loans including interest	9,448	16,708	7,023	21,524
Net settled derivatives	1	–	–	–
Energy derivatives	357	26	–	–
Lease liabilities	947	1,271	743	1,101
Trade payables	17,950	80	–	–
Total	28,703	18,085	7,766	22,625
Gross settled derivatives ¹⁾	109,124	924	680	–
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	–

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
2021				
Nominal	137,129	111,601	22,755	2,773
Asset	4,784	597	286	3,901
Liability	1,578	894	301	383
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

¹⁾ Nominal SEK 124,914m (74,475; 64,183) 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 35. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2021. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category and measurement level on page 100.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2021		
Gross amount	4,790	1,584
Offsettable amount	-6	-6
Net amount recognized in the balance sheet	4,784	1,578
ISDA agreements whose transactions are not offset in the balance sheet	-1,131	-1,131
Collateral paid/received	-2,090	-264
Net after offsetting in accordance with ISDA agreements	1,563	183
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

Profit or loss

Hedges pertaining to transaction exposure had an impact of SEK 118m (-37; -16) on operating profit for the period. At year-end, the net market value amounted to SEK 26m (-39; -17). Currency hedges increased the cost of non-current assets by SEK 1m (decreased: 2; increased: 14). At year-end, the net market value amounted to SEK 0m (-4; -3). Energy derivatives had an impact of SEK 1,857m (-451; -173) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 3,518m (191; -282) at year-end. Derivatives impacted net interest items in an amount of SEK -19m (-169; -381). The net market value of outstanding interest rate derivatives amounted to SEK -15m (556; 545) at year-end. For further information relating to financial items, see Note E7 Financial income and expenses on page 107.

Sensitivity analysis

Essity has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2021 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 17m (13; 8).

If the Swedish krona had unilaterally weakened/strengthened by 5%, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 0m (1; 0). If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 952m (245; 174). In addition to the earnings impact, equity would have increased/decreased by SEK 211m (124; 90). 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 35. The derivatives to which hedge accounting is applied are presented below. Essity also continuously hedges the transaction exposure and energy price risks for the risks that are recognized in the balance sheet and profit or loss. Hedge accounting is not applied in respect of these risks. For currency derivatives, the revaluation from the risks meets derivatives in the financial positions. For energy derivatives, the result is recognized in profit or loss.

E6. Derivatives and hedge accounting, cont.

IFRS 9 provides the option of hedging risk components. In 2021, Essity did not utilize this option except for energy where Essity, for certain markets including the Nordic region and Mexico, hedges 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.

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 2021, SEK 0m (0; 0) was recognized in profit or loss as ineffectiveness concerning the cash flow hedges. Currency derivatives

mature until March 2024, while energy derivatives mature until December 2023.

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 -1,012m (1,504; -168) during the year. This result is largely due to hedges of net investments in USD and EUR. In 2021, 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 -79m (374; 124). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK -11,833m (-12,854; -11,550). Essity's total foreign net investments at year-end amounted to SEK 77,772m (71,222; 71,797). 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 107.

Currency and energy derivatives, SEKm	Line in the balance sheet	2021		2020		2019	
		Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Currency derivatives – cash flow hedges	Other non-current assets	117	9	64	–	–	–
Currency derivatives – cash flow hedges	Other current receivables	355	14	99	3	47	1
Currency derivatives – cash flow hedges	Other non-current liabilities	14	1	62	1	28	0
Currency derivatives – cash flow hedges	Other current liabilities	281	14	185	6	283	4
Energy derivatives – cash flow hedges	Other non-current assets	559	647	559	79	36	3
Energy derivatives – cash flow hedges	Other current receivables	1,423	2,758	706	151	68	7
Energy derivatives – cash flow hedges	Other non-current liabilities	63	26	79	5	516	42
Energy derivatives – cash flow hedges	Other current liabilities	531	358	354	33	994	230
Currency derivatives – hedging of net investments	Non-current financial assets	–	–	–	–	–	–
Currency derivatives – hedging of net investments	Current financial assets	7,329	158	8,904	288	4,499	68
Currency derivatives – hedging of net investments	Non-current financial liabilities	–	–	–	–	–	–
Currency derivatives – hedging of net investments	Current financial liabilities	9,815	244	2,096	27	2,691	86

Interest rate derivatives – hedging of fair value, SEKm

					Line in the balance sheet		
					Financial assets	Financial liabilities	Variable interest
Maturity date	Nominal amount	Change in fair value, hedged item	Change in fair value, derivatives	Ineffectiveness			
2021							
Non-current derivatives							
2023	4,092	91	-96	-5	185	-	Euribor 6m + 0.7215-0.73165
2025	3,919	73	-73	0	101	-7	Euribor 6m + 0.514-0.5168, Stibor + 0.3375
2029	6,138	156	-121	35	0	-113	Euribor 6m +0.3449
2030	3,069	119	-124	-5	0	-34	Euribor 6m +0.5077-0.5102
2031	4,092	165	-157	8	0	-146	Euribor 6m +0.4298
Total	21,310	604	-571	33	286	-300	
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
Total	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
Total	12,638	-71	68	-3	526	0	

E6. Derivatives and hedge accounting, cont.

Derivatives with hedge accounting ¹⁾							
SEKm	Asset	Liability	Net	Tax	Hedge reserve after tax	Recirculated before tax	Line in profit or loss/ balance sheet
2021							
Derivatives with hedge accounting in hedge reserve							
Cash flow hedges							
Energy risk	3,405	-384	3,021	-806	2,215	-1,363	³⁾
Currency risk	23	-15	8	-2	6	1	⁴⁾
Total	3,428	-399	3,029	-808	2,221		
Derivatives with hedge accounting without hedge reserve							
Hedges of net investments in foreign operations							
Currency risk ²⁾	165	-244	-79				
Fair value hedges							
Interest rate risk	286	-300	-14				
Total	3,879	-943	2,936	-808	2,221		
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		

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 107. 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 2022. With unchanged exchange rates, profit after tax will be affected in an amount of SEK 6m (0; 0). Currency derivatives relating to hedging of the cost of non-current assets mature until March 2024. With unchanged exchange rates, the cost of non-current assets will be unchanged (increase by 3; increase by 2) after tax. The derivatives intended to hedge energy costs in the Group mature during 2022 and 2023. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 2,215m (positive 144; negative 204).

E7. Financial income and expenses

Financial income and expenses

SEKm	2021	2020	2019
Result from non-current financial assets			
Dividend	-	1	1
Interest income and similar profit items			
Interest income, investments	86	107	105
Other financial income	16	-	-
IS Total financial income	102	108	106
Interest expenses and similar loss items			
Interest expenses, borrowing	-630	-762	-884
Interest expenses, derivatives	-52	-186	-378
Interest expenses, lease liabilities	-79	-98	-110
Fair value hedges, unrealized	33	17	-3
Other financial expenses	-36	-37	-40
IS Total financial expenses	-764	-1,066	-1,415
OCF Total	-662	-958	-1,309

Other financial income and expenses include an exchange difference of SEK 16m (0; -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 0m (87; 116) higher/lower. Sensitivity analysis calculations have been performed on the risk to which Essity was exposed at December 31, 2021 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 35.

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 68,507m (63,342; 62,801) at December 31, 2021. Pages 69–70 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⁾			Fair value through other comprehensive income			Translation reserve			Total reserves in Equity		
	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019
Value, January 1	107	107	107	141	-206	245	10	8	4	323	6,375	4,647	581	6,284	5,003
Fair value through other comprehensive income							0	3	6				0	3	6
Cash flow hedges:															
Result from remeasurement of derivatives recognized in equity				4,142	-9	-725							4,142	-9	-725
Transferred to profit or loss for the period				-1,363	473	112							-1,363	473	112
Acquired cash flow hedges				11									11		
Translation differences in foreign operations ³⁾				33	-6	10	-	-	-	4,559	-7,246	1,859	4,592	-7,252	1,869
Gains/losses from hedges of net investments in foreign operations										-1,012	1,504	-168	-1,012	1,504	-168
Tax on items recognized directly in/transferred from equity				-744	-109	138	0	-1	-2	208	-310	37	-536	-420	173
Other comprehensive income for the period, net of tax	-	-	-	2,079	349	-465	0	2	4	3,755	-6,052	1,728	5,834	-5,701	1,267
Transfer to cost of fixed assets concerning hedged investments, net of tax				1	-2	14							1	-2	14
Value, December 31	107	107	107	2,221	141	-206	10	10	8	4,078	323	6,375	6,416	581	6,284

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

²⁾ See also Note E6 Derivatives and hedge accounting on page 104 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 -60m (4; -178).

E8. Equity, cont.

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

SEKm	2021			2020			2019		
	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	-148	-13	-161	-202	280	78	482	54	536
Fair value through other comprehensive income	0	0	0	3	-1	2	6	-2	4
Cash flow hedges	2,779	-744	2,035	464	-109	355	-613	138	-475
Translation differences in foreign operations	5,480	-	5,480	-8,092	-	-8,092	2,095	-	2,095
Other comprehensive income from associated companies	15	-3	12	-20	4	-16	-14	4	-10
Gains/losses from hedges of net investments in foreign operations	-1,012	208	-804	1,504	-310	1,194	-168	37	-131
Other comprehensive income for the period	7,114	-552	6,562	-6,343	-136	-6,479	1,788	231	2,019

At December 31, 2021, the debt/equity ratio amounted to 0.81 (0.67; 0.81). Changes in liabilities and equity are described in the Financial position section on page 34. 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 35. The Essity share section on page 6 outlines Essity's dividend policy, while its capital structure is described in the Objectives, targets and outcomes section on page 20.

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, which is deemed to give Essity control over the operation. For information on the change in ownership in Familia, see Note F2 Jointly owned Group companies with significant non-controlling interests on page 110 and Note F6 Acquisitions and divestments of Group companies on page 112. For more information on the change in ownership in Asaleo Care, see Note F3 Investments in associates and joint ventures on page 110 and Note F6 Acquisitions and divestments of Group companies on page 112.

Non-controlling interests

Non-controlling interests are recognized as a separate item in the Consolidated statement of changes in 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, 2021 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 2021.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2021	Share of equity at December 31, 2020	Share of equity at December 31, 2019
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.	3226403	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	96	50	50
Productos Familia del Sancela Ecuador S.A. ¹⁾	179131437900	Quito, Ecuador	96	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
Essity Czech Republic s.r.o.	485 36 466	Prague, Czech Republic	100	100	100
Essity Operations Allo SL	B31235260	Allo, Spain	100	100	100
Essity Slovakia s.r.o.	36590941	Gemerska Horka, Slovakia	100	100	100
Essity Operations Mainz-Kostheim GmbH	HRB 5301	Mainz-Kostheim, Germany	100	100	100
Essity Operations France SAS	702 055 187	Saint-Ouen, France	100	100	100
Essity Operations Mannheim GmbH	HRB 3248	Mannheim, Germany	100	100	100
Essity Operations Neuss GmbH	HRB 14343	Neuss, Germany	100	100	100
Essity Operations Poland Sp.z o.o.	KRS No. 0000086815	Olawa, Poland	100	100	100
Essity Operations Le Theil SAS	509 599 619	Saint-Ouen, France	100	100	100
Essity Operations Manchester Ltd	4119442	Dunstable, UK	100	100	100
BSN medical GmbH	HRB 124 187	Hamburg, Germany	100	100	100
BSN Radiante SAS	652 880 519	Le Mans, France	100	100	100
BSN Medical Inc.	3269728	North Carolina, USA	100	100	100
BSN-Jobst GmbH	HRB 3482	Emmerich, Germany	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
Asaleo Personal Care Pty Ltd ²⁾	005 442 375	Springvale, Australia	100		
Asaleo Care New Zealand Ltd ²⁾	1470756	Auckland, New Zealand	100		
BSN Medical (Aust.) Pty Ltd	095 746 204	Victoria, Australia	100	100	100
BSN Medical (Proprietary) Limited	2001/003941/07	Pinetown, South Africa	100	100	100

¹⁾ Since the acquisition of an additional 45.8% of the shares in Productos Familia S.A. on August 31, 2021, Essity has one jointly owned Group company with significant non-controlling interests, see Note F2 on page 110.
²⁾ Prior to the acquisition on July 1, 2021, Asaleo Care was recognized as an associated company, for more information see Note F3 on page 110.

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 26,480m (26,768; 20,266) at the end of the period.

Familia

Productos Familia S.A., Colombia (Familia) operates in the South American market and sells Personal Care, Consumer Tissue and Professional Hygiene products. On August 31, 2021, Essity increased its ownership stake in Familia from 50% to 95.8%. Already prior to this transaction, Essity was deemed to have a controlling influence of Familia since Essity had control over the activities with the most significant impact on Familia's return. For further

information about the acquisition of the additional shares, refer to Note F6 Acquisitions and divestments of Group companies and other operations on page 112.

Financial information

Financial information is disclosed below for both Group companies. The financial information for Familia includes only the period January to August 2021. 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		
	2021	2020	2019	2021	2020	2019
Condensed income statement						
Net sales	20,584	19,521	19,355	4,394	6,950	7,603
Operating profit before amortization of acquisition-related intangible assets	2,321	2,973 ²⁾	1,889	713 ³⁾	1,170 ³⁾	1,042 ³⁾
Operating profit	2,245	2,893 ²⁾	1,882	709 ³⁾	1,162 ³⁾	1,032 ³⁾
Profit for the period	1,801	2,223	1,364	538	819	719
of which attributable to owners of the Parent company	929	1,151	709	269	410	371
Other comprehensive income for the period	-119	-60	62	-99	-803	191
of which attributable to owners of the Parent company	-62	-31	32	-51	-409	86
Comprehensive income for the period	1,682	2,163	1,426	439	16	910
of which attributable to owners of the Parent company	867	1,120	741	218	1	457
of which attributable to non-controlling interests	815	1,043	685	221	15	453
Dividend to non-controlling interests	298	212	146	190	187	151
Condensed balance sheet						
Non-current assets	23,301	19,888 ²⁾	20,556		3,217	3,861
Current assets	9,635	8,799	7,043		3,466	3,616
Total	32,936	28,687	27,599		6,683	7,477
Equity attributable to owners of the Parent company	11,252	9,417 ²⁾	9,110		2,094	2,281
Equity attributable to non-controlling interests	8,336	6,853 ²⁾	6,397		2,018	2,190
Non-current liabilities	5,691	4,150 ²⁾	5,399		802	1,080
Current liabilities	7,657	8,267	6,693		1,769	1,926
Total	32,936	28,687	27,599		6,683	7,477
Cash flow from operating activities	2,918	2,371	3,031		1,274	841
Cash flow from investing activities	-1,940	-2,041	-1,535		-253	-254
Cash flow from financing activities	-704	-37	-1,625		-468	-460
Cash flow for the period	274	293	-129		553	126

¹⁾ For more information about the companies, refer to the list of major Group companies on page 109.

²⁾ Amounts for Vinda regarding 2020 have been adjusted.

³⁾ For Familia, items affecting comparability in the amount of SEK -m (-; -22) are included.

F3. Investments in associates and joint ventures

AP Accounting principles

Joint arrangements

Essity classifies its joint arrangements as joint ventures or joint operations, which are presented in Note F4 Joint operations on page 112.

Joint ventures

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

Associates

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 associates and joint ventures". Share of profits is calculated on the basis of Essity's share of equity in the respective associate.

F3. Investments in associates and joint ventures, cont.

Carrying amounts of investments in associates and joint ventures

SEKm	2021	2020	2019
Joint ventures			
Value, January 1	189	181	171
Net increase in joint ventures ¹⁾	-12	17	8
Reclassification between joint operation and joint venture	8	-	-
Translation differences	5	-9	2
Value, December 31	190	189	181
Associates			
Value, January 1	658	684	606
Company acquisitions	-	-	3
Net change in associated companies ¹⁾	-61	1	43
Reclassification between associated companies and Group companies	-565	-	-
Translation differences	17	-27	32
Value, December 31	49	658	684
BS TF3:1 Value, December 31, investments in associates and joint ventures	239	847	865

¹⁾ Net increase for the period includes the Group's share of the profit after tax of joint ventures and associated companies, as well as items recognized directly in equity (both after deductions for any non-controlling interests). In addition, an adjustment is included for dividends received during the period, which amounted to SEK 8m (3; 8) for joint ventures and SEK 64m (28; -) for associated companies.

Associates and joint ventures

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.

On July 1, 2021, Essity increased its ownership stake in Asaleo Care from 36% to 100%. On account of this, the financial information concerning Asaleo Care below only includes the January to June 2021 period. For further information about the acquisition of the additional shares, refer to Note F6 Acquisitions and divestments of Group companies and other operations on page 112.

In 2020, the company discontinued the Baby Care operations in New Zealand. Essity recognized the effects of these transactions as items affecting comparability. During 2019, the company divested the Consumer Tissue operations in Australia.

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 investments in associates and joint ventures, 100% of operations

SEKm	Joint ventures			Associates			Total		
	Bunzl & Biach			Asaleo Care					
	2021	2020	2019	2021 ¹⁾	2020	2019	2021	2020	2019
Condensed income statement									
Net sales	2,487	1,134	1,424	1,374	2,655	2,795	3,861	3,789	4,219
Depreciation/amortization	-18	-14	-13	-89	-171	-168	-107	-185	-181
Operating profit/loss	39	34	30	-42	390	346	-4	424	376
Interest income	0	0	0	-	1	3	0	1	3
Interest expenses	0	0	0	-26	-52	-80	-26	-52	-80
Other financial items	0	0	0	-1	-1	-4	-1	-1	-4
Tax expense	-10	-7	-9	10	-97	-73	0	-104	-82
Profit/loss for the period, continuing operations	29	27	21	-59	241	192	-30	268	213
Profit/loss for the period, discontinued operations	-	-	-	-	-37	-9	-	-37	-9
Profit/loss for the period	29	27	21	-59	204	183	-30	231	204
Other comprehensive income for the period	-	-	-	43	-44	-13	43	-44	-13
Comprehensive income for the period	29	27	21	-16	160	170	13	187	191
Condensed balance sheet									
Non-current assets	135	160	163		1,929	2,041	135	2,089	2,204
Cash and cash equivalents	17	64	31		345	216	17	409	247
Other current assets	502	174	167		690	969	502	864	1,136
Total assets	654	398	361		2,964	3,226	654	3,362	3,587
Non-current financial liabilities	169	90	69		932	1,114	169	1,022	1,183
Other non-current liabilities	109	63	69		206	363	109	269	432
Current financial liabilities	21	-	-		48	9	21	48	9
Other current liabilities	138	26	31		544	513	138	570	544
Total liabilities	437	179	169		1,730	1,999	437	1,909	2,168
Net assets	217	219	192		1,234	1,227	217	1,453	1,419
Group share of net assets	106	107	94		446	444	106	553	538
Surplus value	61	69	74		174	191	61	243	265
Carrying amount of the companies	167	176	168		620	635	167	796	803
Carrying amount of other joint ventures	23	13	13		-	-	23	13	13
Carrying amount of other associated companies				49	38	49	49	38	49
BS TF3:2 Carrying amount of investments in associates and joint ventures	190	189	181	49	658	684	239	847	865
Market value, December 31					4,690	3,745			

¹⁾ Profit/loss for the period includes costs in conjunction with Essity's acquisition of Asaleo Care in the amount of SEK 150m.

F3. Investments in associates and joint ventures, cont.

TF3:2 Carrying amounts of investments in associates and joint ventures

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2021, %	Share of equity at December 31, 2020, %	Share of equity at December 31, 2019, %	Carrying amount December 31, 2021, SEKm	Carrying amount December 31, 2020, SEKm	Carrying amount December 31, 2019, SEKm
Joint ventures								
Bunzl & Biach GmbH	FN79555v	Vienna, Austria	49	49	49	167	176	168
Other						23	13	13
Associates								
Asaleo Care Ltd	61 154 461 300	Melbourne, Australia		36	36		620	635
Other						49	38	49
BS TF3:1 Carrying amount, December 31						239	847	865

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, revenues and costs in its financial statements.

Joint operations

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2021	Share of equity at December 31, 2020	Share of equity at December 31, 2019
Uni-Charm Mölnlycke B.V.	02-330 631	Hoogezand, Netherlands	40	40	40
ProNARO GmbH	HRB 8744	Stockstadt, Germany		50	50
Nokianvirran Energia Oy (NVE)	213 1790-4	Kotipakka, Finland	27	27	27

Uni-Charm Mölnlycke

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

ProNARO

A number of paper mills merged and formed the company ProNARO, whose main task is to negotiate prices, optimize inventory levels, improve timber quality and reduce lead times and costs when purchasing timber. Essity has previously recognized ProNARO as a joint operation according to the proportional method. ProNARO has expanded its operations and now also sells to external customers other than Essity and Sappi (the other owner). This change of focus means that the company is more independent and Essity has thus made the assessment that the company is to be recognized according to the equity method as of January 1, 2021. This change means that Essity's participation in ProNARO's assets and liabilities are deconsolidated in the accounts.

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 are deemed to concur with fair value.

Shares and participations

SEKm	2021	2020	2019
Value, January 1	7	8	29
Divestments	-	-1	-14
Other reclassifications	-	-	-7
Translation differences	0	-	-
BS Value, December 31	7	7	8

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 recognized 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.

F6. Acquisitions and divestments of Group companies and other operations, cont.

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 ownership 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 2021

ABIGO Medical AB

On May 14, Essity acquired the remaining 25% of the shares of ABIGO Medical AB, making the company a wholly owned subsidiary. The purchase consideration paid for the remaining 25% amounted to SEK 228m.

Asaleo Care Ltd

On July 1, Essity acquired the remaining 63.8% of the shares in the hygiene company Asaleo Care. Up until June 30, Essity – with its holding of 36.2% of the shares – has been the largest shareholder of Asaleo Care, which prior to the acquisition was listed on the Australian Securities Exchange. Up until the acquisition of the remaining shares, Asaleo Care was recognized as an associate according to the equity method. Essity has paid AUD 1.40 cash per share, a total of AUD 486m. The consideration entails an implicit value for all shares, including the previous holding, of AUD 760m (approximately SEK 4.9bn) and assumed net debt amounts to approximately AUD 196m. Essity's previous holding in Asaleo Care of 36.2% has, according to IFRS, been remeasured on July 1, resulting in a positive extraordinary remeasurement effect of AUD 110m (SEK 706m) in the third quarter. The remeasurement effect was calculated on the basis of the cash offer, less the assessed control premium contained therein.

Since the acquisition, Asaleo Care reported net sales amounting to SEK 1,539m, adjusted EBITDA to SEK 316m and adjusted EBITA to SEK 226m. If Asaleo Care had been consolidated as of January 1, 2021, Essity's net sales would have been positively impacted in the amount of SEK 2,641m, adjusted EBITDA by SEK 516m and adjusted EBITA by SEK 342m after adjustment for recognized external sales in Essity to Asaleo Care, the recognized share in profits from associates in Essity, and excluding items affecting comparability in Asaleo Care during the first half of the year.

Productos Familia S.A.

On August 31, 2021, Essity finalized the acquisition of 45.8% of the shares in the Colombian hygiene company Productos Familia S.A. ("Familia"), which was subject to customary regulatory approvals. Essity now owns 95.8% of Familia. The purchase price amounted to SEK 5,961m on a debt-free basis. Already prior to acquisition of the additional shares, Essity had control of Familia and it was fully consolidated in the Group's accounts. The transaction with shareholders entailed an increase of SEK 5,961m in Essity's net debt and the corresponding decrease in Essity's equity.

Athletic tape brands from Johnson & Johnson Consumer Inc.

On November 1, 2021, Essity announced that it had acquired Johnson & Johnson Consumer Inc.'s professional athletic tape brands Coach, Elastikon and Zonas, which are established premium products in the USA market. Essity is a global market leader in taping and strapping and following the acquisition the company will also become leading among USA sports medicine distributors. The purchase price is not material and is not disclosed.

AquaCast LLC

On December 21, Essity acquired 100% of the shares in AquaCast Liner, a specialist orthopedics company that supplies waterproof cast liners in the USA market. The purchase price is not material and is not disclosed. The net assets included in the acquisition were not material. The company has four employees. Net sales for 2020 and 2021 were not material in relation to those of the Group. A preliminary purchase price allocation indicates goodwill of SEK 53m.

Hydrofera LLC

On December 29, Essity acquired 100% of the shares in the USA-based company Hydrofera, which produces and markets Hydrofera Blue Antibacterial Wound Dressings, an advanced line of wound care products designed to shorten healing times, lower treatment costs, and deliver better patient outcomes. The company has about 90 employees.

In 2020, Hydrofera reported sales of approximately USD 23.5m (SEK 216m) with EBITDA of USD 4.6m (SEK 42m) and EBITA of USD 4.3m (SEK 39m). For the first nine months of 2021, Hydrofera reported net sales of USD 20.7m (SEK 176m) with EBITDA of USD 5.9m (SEK 50m) and EBITA of USD 5.6m (SEK 48m). The preliminary purchase price for Hydrofera amounts to USD 129m.

Transaction costs for the acquisitions amounted to SEK 124m and are recognized in items affecting comparability in profit or loss.

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 was established in the final 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.

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 was established in the final 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 of Group companies and other operations

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

F6. Acquisitions and divestments of Group companies and other operations, cont.

Acquisition balance sheets			
SEKm	2021	2020	2019
Intangible assets	2,541	236	-
Property, plant and equipment	1,074	92	-
Other non-current assets	-	-	3
Operating assets	1,178	184	-
Cash and cash equivalents	185	47	-
Provisions and other non-current liabilities	-479	-69	-
Net debt excluding cash and cash equivalents	-1,425	-79	-
Operating liabilities	-658	-76	-
Fair value of net assets	2,416	335	3
Goodwill	3,398	603	-
Non-transferred consideration, recognized as a liability	69	-225	-
Consolidated value of share in associated companies	-565	-	-
Revaluation of previously owned shares in associated companies	-706	-	-
Non-controlling interests	1,919	1	-
Acquisition of non-controlling interests recognized in equity attributable to owners of the Parent company	4,042	1	-
Consideration transferred	10,573	715	3
Consideration transferred	-10,573	-715	-3
Earn-out payment	-	-	-22
Settled debt pertaining to acquisitions in earlier years	-	-	-118
Cash and cash equivalents in acquired companies	185	47	-
CF Effect on Group's cash and cash equivalents, acquisitions of Group companies and other operations	-10,388	-668	-143
of which recognized as acquisitions in investing activities	-4,427	-668	-143
of which recognized as acquisitions of non-controlling interests in financing activities	-5,961 ¹⁾	-	-
Acquired net debt excluding cash and cash equivalents	-1,425	-79	-
OCF Acquisitions of Group companies and other operations during the period, including net debt assumed	-11,813	-747	-143

¹⁾ Relates to the acquisition of 45.8% of the shares in the Colombian hygiene company Productos Familia S.A. ("Familia").

Specification of preliminary acquisition balance sheet 2021				
SEKm	Asaleo	Hydrofera	Other	Total
Intangible assets	1,822	495	224	2,541
Property, plant and equipment	1,041	33	-	1,074
Operating assets	1,092	82	4	1,178
Cash and cash equivalents	159	24	2	185
Provisions and other non-current liabilities	-467	-	-12	-479
Net debt excluding cash and cash equivalents	-1,416	-9	-	-1,425
Operating liabilities	-612	-45	-1	-658
Fair value of net assets	1,619	580	217	2,416
Goodwill	2,756	589	53	3,398
Non-transferred consideration, recognized as a liability	-	-141	210	69
Consolidated value of share in associated companies	-565	-	-	-565
Revaluation of previously owned share	-706	-	-	-706
Non-controlling interests	-	-	1,919	1,919
Acquisition of non-controlling interests recognized in equity attributable to owners of the Parent company	-	-	4,042	4,042
Consideration transferred	3,104	1,028	6,441	10,573
Consideration transferred	-3,104	-1,028	-6,441	-10,573
Cash and cash equivalents in acquired companies	159	24	2	185
CF Effect on Group's cash and cash equivalents, acquisitions of Group companies and other operations	-2,945	-1,004	-6,439	-10,388
of which recognized as acquisitions in investing activities	-2,945	-1,004	-478	-4,427
of which recognized as acquisitions of non-controlling interests in financing activities	-	-	-5,961	-5,961
Acquired net debt excluding cash and cash equivalents	-1,416	-9	-	-1,425
OCF Acquisitions of Group companies and other operations during the period, including net debt assumed	-4,361	-1,013	-6,439	-11,813

Adjustment of preliminary acquisition balance sheets 2021

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 preliminary purchase price allocation must be confirmed not later than one year from the date of the acquisition. The preliminary purchase price allocations for Asaleo, Hydrofera and AquaCast Liner are preliminary and may be changed.

Divestments of Group companies and other operations

Essity has chosen to deconsolidate its 50% shareholding in ProNARO as of January 1, 2021 and instead recognize the company according to the equity method. Essity has previously recognized ProNARO as a joint operation according to the proportional method. The reason for this change is that ProNARO's operation, the purpose of which is to supply Essity and its partner Sappi with raw materials at a lower cost by pooling timber purchases, has become more independent as the company now also sells timber to external customers. ProNARO's recognized net sales for 2020 amounted to SEK 435m and EBITA to SEK 0m in Essity's accounts.

In conjunction with the process concerning the acquisition of the remaining 25% of the shares in ABIGO Medical AB, in July 2021 Essity – in accordance with the terms of the agreement – divested ABIGO Medical's pharma operations to the company's founder Jan G. Smith for SEK 32m. In July 2021, Essity received SEK 18m in payment for previously unpaid purchase consideration from the divestment in 2020 of its 49% stake in Sancellat Tunisia, and SEK 8m in payment for the receivable on the sales proceeds concerning the divestment of a minor operation in Medical Solutions in Brazil in 2019.

In 2021, accumulated negative translation differences of a total of SEK 60m were recirculated to profit or loss in conjunction with the revaluation of Essity's previously recognized holding of 36.2% upon acquisition of Asaleo Care and the concluded liquidation of Essity's hygiene operation in the Philippines.

The capital gain excluding reclassification of realized translation differences for all divestments amounts to SEK 39m in 2021. Including reclassification of realized negative translation differences totaling SEK 60m for liquidated Group companies and the previous holding of 36.2% in the associate Asaleo Care, the net loss amounts to SEK 21m.

In 2020, Essity divested its share of 49% in Sancellat Tunisia, a share of its Baby Care operation in Russia, a minor operation included in the Abigo acquisition, and discontinued its previously closed operation in Morocco and India.

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

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

SEKm	2021	2020	2019
Intangible assets	2	38	59
Property, plant and equipment	-	129	130
Other non-current assets	-1	24	1
Operating assets	33	322	93
Cash and cash equivalents	44	38	0
Net debt excluding cash and cash equivalents	-15	-284	-215
Other non-current liabilities	-	-	-7
Operating liabilities	-68	-268	-87
Non-controlling interests	-	57	27
Gain/loss on sale ¹⁾	39	65	19
Compensation received	34	121	20
Less:			
Receivable for unpaid purchase consideration	-	-	-15
Financial receivable for unpaid purchase consideration	-	-18	-
Cash and cash equivalents in divested companies	-44	-38	0
Add:			
Payment of receivable for previously unpaid purchase consideration	8	-	-
Payment of financial receivable for previously unpaid purchase consideration	18	-	-
CF Impact on Group's cash and cash equivalents, divestments of Group companies and other operations	16	65	5
Less:			
Payment of financial receivable for previously unpaid purchase consideration	-18	-	-
Add:			
Financial receivable for unpaid purchase consideration	-	18	-
Divested net debt excluding cash and cash equivalents	15	284	215
OCF Divestments of Group companies and other operations during the period, including net debt transferred and financial receivable for unpaid purchase consideration	13	367	220

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

G. Other

G1. Non-current assets held for sale

AP Accounting principles

Assets are classified as held for sale if their value, within one year, is expected to 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 or 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	2021	2020	2019
Buildings	-	-	28
Land	-	-	14
BS Total	-	-	42

Non-current assets held for sale are attributable to:

- 2019: closure of a production plant in the USA

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
- Essity is entitled to essentially all economic benefits arising from the use of the identified asset
- Essity 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 Essity is reasonably certain of exercising the option
- financial penalties to be paid on termination of the lease, if the lease term reflects that Essity 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 repayment of the lease liability. 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.

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 duration of the lease is determined as the non-cancellable lease term together with periods that may be covered by an option to extend a lease if it is reasonably certain that the contract will be renewed and periods covered by an option to terminate the lease if it is reasonably certain that a possibility to cancel the lease will not be utilized. When assessing if it is reasonably certain that a renewal option or cancellation option will be used, all relevant facts and circumstances that create economic incentives or deterrents are taken into account. The assessment of the lease term is reviewed in cases where facts and circumstances have significantly changed.

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

Lease terms for properties are generally between 3-15 years, while lease terms for vehicles are generally between 3-5 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.

G2. Leases, cont.

TG2:1

SEKm	Right-of-use assets				Lease liabilities
	Properties	Vehicles	Other	Total	
Value, January 1, 2021	4,301	299	12	4,612	3,531
Additional right-of-use assets, net	612	237	16	865	865
Leases included in acquisitions	117	19	7	143	143
Depreciation	-730	-201	-7	-938	-
Interest expenses					79
Payments					-974
Translation differences	252	18	1	271	127
Value, December 31	4,552	372	29	4,953	3,771

In addition to the expenses in the table above, Essity recognized SEK 284m (286; 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 1,301m (1,306; 1,249). Lease payments totaled SEK 1,258m (1,300; 1,203).

The maturity structure concerning undiscounted future lease payments during future lease terms is presented in Note E5 Liquidity risk on page 103.

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 43m distributed over the next three years.

TG2:2

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	4,301	299	12	4,612	3,531

TG2:3

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	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	2021	2020	2019
Guarantees for			
associated companies	1	1	1
customers and others	48	47	45
Other contingent liabilities	222	39	50
Total	271	87	96

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

Pledged assets

SEKm	Pledged assets related to financial liabilities	Other	Total		
			2021	2020	2019
Real estate mortgages	309	-	309	300	21
Chattel mortgages	76	-	76	103	39
Other	56	249	305	283	284
Total	441	249	690	686	344

Liabilities for which some of these assets were pledged as collateral amounted to SEK 214m (302; 0).

G4. Transactions with related parties

On July 1, 2021, Essity increased its ownership stake in Asaleo Care Ltd, which was previously listed on the stock exchange in Australia (ASX), from 36% to 100%. Sales to Asaleo Care mainly concern products in Professional Hygiene and Incontinence Products. Transactions and dealings are outlined in table TG4:1 below. Due to the increased ownership stake, the financial information pertains solely from January to June, 2021.

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	2021	2020	2019
Sales	269	396	424
Other income	14	28	36
Trade receivables		64	52

TG4:2 Transactions and dealings with joint ventures, Bunzl & Biach

SEKm	2021	2020	2019
Purchases	303	260	319
Accounts payables	35	22	23

G5. Events after the balance sheet date

On February 1, 2022, Essity acquired 100% of the shares in the USA-based professional wiping and cleaning company Legacy Converting, Inc. The company offers products within the categories of sanitizing and disinfecting wet-wipes, napkins, chemical-ready wipes and dry wipes. The purchase price amounts to USD 40m (approximately SEK 370m) with a potential additional earn-out amount of USD 10m (approximately SEK 90m) on a cash and debt-free basis. For the first nine months of 2021, Legacy Converting, Inc. reported net sales of USD 15.1m (SEK 140m) with an adjusted EBITDA of USD 2.5m (SEK 24m) and an adjusted EBITA of USD 1.8m (SEK 16m).

Financial statements, Parent company

Income statement **IS**

SEKm	Note	2021	2020
Administrative expenses		-734	-705
Other operating income		312	265
Operating loss	PC2	-422	-440
Financial items	PC10		
Result from participations in Group companies		4,119	4,170
Interest income and similar profit items		13	231
Interest expenses and similar loss items		-1,430	-1,356
Total financial items		2,702	3,045
Profit after financial items		2,280	2,605
Appropriations	PC4	-1	-1
Income taxes	PC4	-168	32
Profit for the period		2,111	2,636

Statement of comprehensive income

SEKm	2021	2020
Profit for the period	2,111	2,636
Other comprehensive income	-	-
Total comprehensive income	2,111	2,636

Cash flow statement **CF**

SEKm	2021	2020
Operating activities		
Profit after financial items	2,280	2,605
Adjustment for non-cash items T:1	-260	-1,244
Paid tax	-18	0
Cash flow from operating activities before changes in working capital	2,002	1,361
Change in operating receivables	1,471	-383
Change in operating liabilities ¹⁾	618	278
Cash flow from operating activities	4,091	1,256
Investing activities		
Acquisition of subsidiaries	-1,111	-
Investments in fixed assets	-1	-1
Cash flow from investing activities	-1,112	-1
Financing activities		
Proceeds from borrowings	1,762	6,305
Repayment of borrowings	-	-3,171
Dividend paid	-4,741	-4,389
Cash flow from financing activities	-2,979	-1,255
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	2021	2020
Depreciation of fixed assets	2	3
Change in accrued items	-252	-1,238
Payments relating to efficiency program already recognized	-	0
Change in provisions	-10	-9
Total	-260	-1,244

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	2021	2020
Dividends received	4,706	2,586
Group contribution received	1,937	1,466
Group contribution paid	-360	-57
Interest paid	-1,187	-1,340
Interest received	246	212
Total	5,342	2,867

Change in liabilities attributable to financing activities

SEKm	Value, January 1	Cash flow	Translation difference	Value, December 31
Non-current interest-bearing liabilities	31,710	2,617	245	34,572
Current interest-bearing liabilities	5,013	-1,083	-111	3,819
Current liabilities to Group companies	50,890	222	0	51,112
Current receivables from Group companies	-6	6	0	0
Total	87,607	1,762	134	89,503

Balance sheet **BS**

SEKm	Note	2021	2020
Assets			
Non-current assets			
Capitalized development costs		0	0
Intangible assets	PC5	0	0
Machinery and equipment		13	14
Property, plant and equipment	PC6	13	14
Participations in subsidiaries	PC7	176,559	175,447
Receivables from Group companies	PC8	286	542
Other non-current receivables		249	234
Deferred tax assets	PC4	185	178
Financial non-current assets		177,279	176,401
Total non-current assets		177,292	176,415
Current assets			
Receivables from Group companies	PC8	814	2,108
Other current receivables	PC9	38	32
Total current assets		852	2,140
Total assets		178,144	178,555
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		81,448	83,553
Profit for the period		2,111	2,636
Total non-restricted equity		83,559	86,189
Total equity		85,909	88,539
Untaxed reserves	PC4	6	5
Provisions			
Provisions for pensions	PC3	878	872
Other provisions		2	2
Total provisions		880	874
Non-current liabilities			
Liabilities to Group companies	PC8	180	-
Non-current interest-bearing liabilities	PC10	34,572	31,710
Total non-current liabilities		34,752	31,710
Current liabilities			
Liabilities to Group companies	PC8	52,222	51,910
Current tax liabilities	PC4	159	3
Current interest-bearing liabilities	PC10	3,819	5,013
Trade payables		22	20
Other current liabilities	PC11	375	481
Total current liabilities		56,597	57,427
Total equity, provisions and liabilities		178,144	178,555

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, 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
Profit for the period			2,111	2,111
Dividend, SEK 6.75 per share			-4,741	-4,741
Equity at December 31, 2021	2,350	0	83,559	85,909

PC. Notes to the Parent company's financial statements

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.

PC2. Operating profit/loss

Operating profit/loss by type of cost

SEKm	Note	2021	2020
Other operating income		312	265
Other external costs		-442	-373
Personnel and Board costs		-290	-329
Depreciation of property, plant and equipment	PC6	-2	-3
IS Total		-422	-440

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

AUDITING EXPENSES

Auditing expenses

SEKm	2021	2020
EY		
Audit assignments	-9	-11
Auditing activities other than the audit assignment	1	0
Tax consultancy services	0	0
Other assignments	0	-1
Total	-8	-12

Leases

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	2021	2020
Within 1 year	30	31
Between 2 and 5 years	115	116
Later than 5 years	86	114
Total	231	261

Cost for the period for leasing of assets amounted to SEK -34m (-33). Leased assets comprise means of transportation and office premises.

PC3. Personnel and Board costs

Salaries and remuneration

SEKm	2021	2020
Board of Directors ¹⁾ , President, Executive Vice President and senior executives (5 (4))	-55	-63
of which variable remuneration	-2	-15
Other employees	-97	-125
Total	-152	-188

¹⁾ Board fees decided by the Annual General Meeting amounted to SEK -10m (-9). For further information, see Notes C1-C4 on pages 91-95.

Social security costs

SEKm	2021	2020
Total social security costs	-131	-136
of which pension costs ¹⁾	-84	-78

¹⁾ Of the Parent Company's pension costs, SEK -17m (-17) 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 90m (71).

Pension costs

SEKm	2021	2020
Self-administered pension plans		
Costs excluding interest expense	-64	-50
Interest expense (recognized in personnel costs)	1	-2
Sub-total	-63	-52
Retirement through insurance		
Insurance premiums	-24	-22
Other	26	16
Sub-total	-61	-58
Policyholder tax	0	0
Special payroll tax on pension costs	-19	-16
Cost of credit insurance, etc.	-4	-4
Pension costs for the period	-84	-78

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK -2m (-2). Premiums for 2022 are expected to amount to SEK 1m, see also Provisions for pensions in this note. Personnel costs also include other personnel costs in the amount of SEK -7m (-5).

Average number of employees

	2021	2020
Sweden	106	106
of whom women, %	58	54

Breakdown of employees by age groups, %

2021	21-30 years	31-40 years	41-50 years	51-60 years	61+ years
	2	22	37	32	7

Women comprised 42% (50) of Board members and 31% (25) of senior executives.

PC3. Personnel and Board costs, cont.

Provisions for pensions

AP Accounting principles

The Parent company's provisions for pensions are secured by the regulations in the Pension Obligations Vesting Act (Tryggandelagen) and via endowment insurances. 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, 2021, amounted to SEK 281m (267). In 2021, compensation was received in the amount of SEK 6m (6). The capital value of the pension obligations at December 31, 2021 amounted to SEK 191m (182). Pension payments of SEK -7m (-6) were made in 2021. In 2021, the assets exceeded pension obligations by SEK 90m (85).

Other pension obligations

The Group's Note C2 Remuneration of senior executives on page 91 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	2021	2020
Provisions under Pension Obligations Vesting Act	771	777
Provisions outside the rules of the Pension Obligations Vesting Act	107	95
BS Value, December 31	878	872

Capital value of pension obligations under the Pension Obligations Vesting Act

SEKm	2021	2020
Value, January 1	777	782
Costs excluding interest expense	42	38
Interest expense (recognized in personnel costs)	-1	2
Payment of pensions	-47	-45
BS Value, December 31	771	777

Capital value of pension obligations outside the rules of the Pension Obligations Vesting Act

SEKm	2021	2020
Value, January 1	95	93
Costs excluding interest expense	21	12
Interest expense (recognized in personnel costs)	0	0
Payment of pensions	-9	-10
BS Value, December 31	107	95

Out of the total pension liability in 2021 amounting to SEK 878m, SEK 107m (95) comprises a direct pension liability secured via endowment insurances. The direct pension liability is not secured in accordance with the Pension Obligations Vesting Act. Endowment insurances are reported as other non-current receivables in the balance sheet. For the remaining portion of the pension liability, external actuaries have carried out capital value calculations pursuant to the provisions of the Pension Obligations Vesting Act. The discount rate is -0.1% (0.3). 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 60m.

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	2021	2020
Deferred tax	-7	-46
Current tax	175	14
IS Total	168	-32

Explanation of tax expense

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

Reconciliation	2021		2020	
	SEKm	%	SEKm	%
IS Profit before tax	2,279		2,604	
IS Tax expense/income	168	7.4	-32	-1.2
Expected tax	469	20.6	557	21.4
Difference	-301	-13.2	-589	-22.6
The difference is due to:				
Taxes related to prior periods	0	0.0	0	0.0
Non-taxable dividends from subsidiaries	-969	-42.5	-555	-21.3
Non-taxable Group contributions from Group companies ¹⁾	0	0.0	-283	-10.9
Non-deductible Group contributions to Group companies ¹⁾	385	16.9	-	-
Non-deductible interest expenses	282	12.3	234	9.0
Other non-taxable/non-deductible items	1	0.1	15	0.6
Changed tax rate	0	0.0	0	0.0
Total	-301	-13.2	-589	-22.6

¹⁾ Non-taxable and non-deductible Group contributions relate to repayment from/to Group companies amounting to 79.4% (78.6) of the Group contribution.

The Parent company participates in the Group's tax pooling arrangement and as of 2021, pays the majority of the Group's total Swedish taxes. These are recognized as Group contributions paid and received in profit or loss. The net of paid and received Group contributions per Group company amounts to 20.6% (21.4) and represents the respective Group company's share of the Group's total tax expense. The gross amounts are recognized as taxable income and deductible expenses and the repayable amounts are recognized as non-taxable income and non-deductible expenses.

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

SEKm	2021	2020
Income tax for the period	174	0
Adjustments for prior periods	1	14
Total	175	14

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

SEKm	2021	2020
Value, January 1	3	-11
Current tax expense	175	14
Paid tax	-19	0
BS Value, December 31	159	3

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

SEKm	2021	2020
Changes in temporary differences	-6	-33
Adjustments for prior periods	-1	-13
Total	-7	-46

Deferred tax assets (-)

SEKm	Value, January 1	Deferred tax expense	Value, December 31
Provisions for pensions	-179	-1	-180
Other	1	-6	-5
BS Total	-178	-7	-185

Appropriations and untaxed reserves

Accumulated depreciation in excess of plan totaling SEK 6m (5) is included in the Parent company's untaxed reserves.

PC5. Intangible assets

Capitalized development costs		
SEKm	2021	2020
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	–	–
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	2021	2020
Accumulated costs	23	22
Accumulated depreciation	–10	–8
Residual value according to plan	13	14
Value, January 1	14	16
Investments	1	1
Sales and disposals	0	0
Depreciation for the period	–2	–3
BS Value, December 31	13	14

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	
	2021	2020
Accumulated costs	176,612	175,500
Accumulated impairment	–53	–53
Carrying amount	176,559	175,447
Value, January 1	175,447	175,448
Investments	1,391	–
Divestments	–279	–8
Reversal of impairment	–	7
BS TPC7:1 Value, December 31	176,559	175,447

During the fiscal year, the Parent company made capital contributions amounting to SEK 1,370m to Essity Group Holding B.V., of which SEK 279m relates to 25% of the shares in Essity Italy S.p.A. In addition, SEK 21m was invested in Essity Capital B.V.

TPC7:1 Essity Aktiebolag's holdings of shares and participations in subsidiaries, December 31, 2021

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOF	556047-8520	Stockholm, Sweden	1,000	100	0
Essity Försäkringsaktiebolag	516401-8540	Stockholm, Sweden	140,000	100	14
Essity TC AB	556643-7298	Stockholm, Sweden	1,000	100	826
Foreign subsidiaries:					
Essity Group Holding B.V.	33181970	Amsterdam, Netherlands	246,347	100	175,698
Essity Capital B.V.	82525897	Amsterdam, Netherlands	2,000,000	100	21
Total carrying amount of subsidiaries					176,559

German Group companies that are subject to disclosure exemptions

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

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

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

PC8. Receivables from and liabilities to Group companies

Receivables from and liabilities to Group companies

SEKm	2021	2020
Non-current assets		
Derivatives	286	542
BS Total	286	542
Current assets		
Interest-bearing receivables	–	6
Financial derivatives	214	24
Trade receivables	114	138
Other receivables	486	1,940
BS Total	814	2,108
Non-current liabilities		
Derivatives	180	–
BS Total	180	–
Current liabilities		
Interest-bearing liabilities	51,112	50,890
Financial derivatives	24	637
Accounts payables	13	22
Other liabilities	1,073	361
BS Total	52,222	51,910

PC9. Other current receivables

Other current receivables

SEKm	2021	2020
TPC9:1 Prepaid expenses and accrued income	23	23
Other receivables	15	9
BS Total	38	32
TPC9:1 Prepaid expenses and accrued income		
Prepaid lease of premises	8	8
Prepaid financial expenses	1	1
Prepaid insurance premiums	0	0
Other items	14	14
Total	23	23

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 100–103. Hedge accounting was not applied by the Parent company.

Financial items

SEKm	2021	2020
Result from participations in Group companies		
Dividends from subsidiaries	4,706	2,593
Gain/loss on sales of shares in subsidiaries	–	–7
Group contributions received from Group companies	485	1,937
Group contributions paid to subsidiaries	–1,072	–360
Reversal of impairment of shares in subsidiaries	–	7
Interest income and similar profit items		
Interest income, external	13	1
Interest income, Group companies	0	230
Interest expenses and similar loss items		
Interest expenses, external	–459	–485
Interest expenses, Group companies	–957	–847
Other financial expenses ¹⁾	–14	–24
IS Total	2,702	3,045

¹⁾ The item other financial expenses includes financial fees and exchange rate differences. Exchange rate differences amounted to SEK 16m (7), net.

Interest-bearing liabilities

Non-current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2021	2020	2021	2020
Bond issues	32,549	27,968	32,444	29,084
Other non-current loans with a term > 1 yr < 5 yrs	2,023	3,742	2,008	3,766
BS Total	34,572	31,710	34,452	32,850

Current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2021	2020	2021	2020
Bond issues	–	5,013	–	5,037
Loans with maturities of less than one year	3,819	–	3,819	–
BS Total	3,819	5,013	3,819	5,037

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate %
Notes EUR 500m	2023	5,107	5,305	2.50
Notes EUR 600m	2024	6,125	6,274	1.13
Notes SEK 2,150m	2025	2,159	2,128	0.42
Notes SEK 850m	2025	849	839	0.50
Notes EUR 300m	2025	3,066	3,145	1.13
Notes EUR 500m	2027	5,090	5,327	1.63
Notes EUR 300m	2030	3,038	2,898	0.50
Notes EUR 700m	2031	7,115	6,528	0.25
Total		32,549	32,444	

Financial instruments by category

AP Accounting principles

In 2021, 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 101. 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 loss model.

PC10. Financial instruments, cont.

Financial instruments by category				
SEKm	Note	2021	2020	
Financial assets measured at fair value through profit or loss				
Derivatives with Group companies – Non-current financial assets	PC8	286	542	
Endowment insurances – Other non-current receivables		249	234	
Derivatives with Group companies – Current financial assets	PC8	214	24	
Total		749	800	
Financial liabilities measured at fair value through profit or loss				
Derivatives with Group companies – Non-current financial liabilities	PC8	180	–	
Derivatives with Group companies – Current financial liabilities	PC8	24	637	
Total		204	637	
Loan and trade receivables measured at amortized cost				
Current interest-bearing receivables with Group companies	PC8	–	6	
Trade receivables with Group companies	PC8	114	138	
Trade receivables – Other current receivables		1	5	
Total		115	149	
Financial liabilities measured at amortized cost				
Non-current interest-bearing liabilities		34,572	31,710	
Current interest-bearing liabilities to Group companies	PC8	51,112	50,890	
Current interest-bearing liabilities		3,819	5,013	
Accounts payables to Group companies	PC8	13	22	
Accounts payables		22	20	
Other current liabilities to Group companies		1	1	
Other current liabilities		256	275	
Total		89,795	87,931	

The nominal value of the derivatives before the right of set-off is SEK 146,694m (75,256). The nominal value of the derivatives after the right of set-off is SEK 146,366m (51,184).

PC11. Other current liabilities

Other current liabilities			
SEKm	2021	2020	
TPC11:1 Accrued expenses and prepaid income	355	432	
Other operating liabilities	20	49	
BS Total	375	481	

TPC11:1 Accrued expenses and prepaid income			
SEKm	2021	2020	
Accrued interest expenses	255	275	
Accrued social security costs	52	59	
Accrued vacation pay liability	15	16	
Other liabilities to personnel	3	45	
Other items	30	37	
Total	355	432	

PC12. Share capital

The change in equity is shown in the financial report relating to Equity presented on page 118. The Parent 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
2021	Number of shares, December 31, 2021	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	2021	2020	
Guarantees for Group companies	15,767	12,141	
Other contingent liabilities	21	40	
Total	15,788	12,181	

Pledged assets			
SEKm	2021	2020	
Other	249	234	
Total	249	234	

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 24, 2022.

PC15. Events after the balance sheet date

No significant events occurred after the year-end date that have a material impacted on the financial statements as per the year-end date.

H. Notes to Group's sustainability information

H1. General accounting principles

Reporting principles

The social and environmental data reported pertains to the 2021 calendar year unless stated otherwise. The figures included comply with relevant reporting and consolidation principles in accordance with the principles applied in the financial statements. The figures cover 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.

As a general rule, all social and environmental data for all companies that are part of the Essity Group is included. For the Chinese company Vinda, a Group company with significant non-controlling interests (see Note F2), social data, such as employee figures, employee turnover and some health and safety data in notes H12 and H13 are reported. Some other social data is not included, for example Note H2 Code of Conduct data, as this company has its own Codes of Conduct. Environmental data includes, as a general rule, Vinda's Personal Care operations. Greenhouse gas emissions according to Scope 1, 2 and 3 are not included for Vinda's Tissue operations. Vinda publishes an Environmental, Social and Governance (ESG) report, which is available at vinda.com.

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 page 54 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 sustainability 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 76 production sites, covering virtually the entire company's environmental impact and resource utilization from production. Data from stand-alone tissue converting sites is included in 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), 2018. (Scope 2 emissions, location-based)

Comparability

This is Essity's fifth integrated Annual and Sustainability Report. The previous year's report is from February 18, 2021. Figures from previous years are reported in parenthesis. Certain adjustments of environmental data for previous years, notes H10–H11, have taken place 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 sustainability 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 20 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 www.essity.com/sustainability. The index can be found on pages 137–138.

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.

Task Force on Climate-related Financial Disclosures (TCFD)

Essity is publishing its second 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 137.

Sustainability Accounting Standards Board (SASB)

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 137.

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 2021, a total of 92% of Essity's new employees underwent this mandatory training.

Training in the Code of Conduct, percentage of new employees

	2021	2020	2019	2018
Outcome	92	92	96	90

Reported breaches of the Code of Conduct

The summary on the following page presents reports submitted to the whistleblower system and to Essity's Compliance & Ethics department.

H2. Business ethics, cont.

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

Category ¹⁾	2021	2020	2019	2018
Regulatory breach, Fraud and Corruption	14	11	17	20
Security Incidents	–	2	–	–
Operations	4	1	6	3
Sustainability	–	–	–	–
Human Resources	43	45	65	58
Other	3	2	–	–
Total	64	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.

Of the total of 64 reported cases in 2021, 57 were closed and seven cases are still under investigation. Of the 14 reported cases in the Regulatory breach, Fraud and Corruption category, one person was dismissed for breaching the company's anti-corruption policy and a further seven people were dismissed for violations of the Code of Conduct. Of the 43 reported cases in the Human Resources category, 18 concern accusations of discrimination and harassment. None of the breaches identified were financially material.

Internal audits conducted of the Code of Conduct

Five audits of the Code of Conduct took place in 2021. These were mostly conducted remotely due to travel restrictions related to the COVID-19 pandemic. The audits were carried out in Gennep in the Netherlands, Gien in France, Hamburg in Germany, Harrodsburg in the USA and Uruapan in Mexico. The audit is based on the SA8000 standard and is divided into nine chapters. Roughly half of all observations were related to health and safety, such as fire drills that were not conducted on a frequent enough basis. Just under one third were related to management systems, such as the implementation of a conflict of interest register or the repetition of training in the Code of Conduct. A minor share was related to working hours, where the most common problem was that personnel worked more than permitted. The remaining small portion of observations were for disciplinary measures, discrimination and remuneration. There were no observations for child labor, forced labor or freedom of association.

Internal audits conducted of business ethics

Four audits of business ethics took place in 2021. These were mostly conducted remotely due to travel restrictions related to the COVID-19 pandemic. The audits were carried out in Brazil, Mexico, Poland and Russia. The audits were based on Essity's Code of Conduct and the focus by area is decided in a risk assessment prior to the audit. The observations vary but included a need to revisit parts of training in the Code of Conduct, a need to improve internal control, employment contracts and a need to increase awareness of the whistleblower channels.

An action program is in place and has commenced or will be carried out in 2022. Read more about how Essity works with business ethics on page 53.

Internal audits conducted

	2021	2020	2019	2018
Code of Conduct Audits				
Number of audits	5	1	4	3
Number of observations	52	7	57	44
Average number of observations per audit	10.4	7.0	14.3	14.7
Business Ethics Audits				
Number of audits	4	1	3	6
Number of observations	28	8	28	65
Average number of observations per audit	7.0	8.0	9.3	10.8

Ongoing anti-trust cases

In 2021, the company was the subject of an anti-trust case, which was concluded during the year.

H3. Responsible sourcing

During 2021, Essity raised the ambitions to ensure responsible business methods and respect for human rights. The new target, which is based on Essity's total purchasing cost excluding energy, is that 95% of the purchasing cost should be from suppliers that share the company's values. The outcome in 2021 was 88%, which was in line with the target for the year.

Risk analysis

Essity has an established process to perform continuous risk assessments of the company's suppliers and sourcing categories. Approximately 55% of Essity's strategic suppliers for raw materials and finished products are located in Europe, 36% in North and South America and 9% in Asia and Africa. Many of the strategic suppliers' production facilities located in Asia and South America are part of large multinational corporations based in Europe and the USA. This is a conscious choice by Essity to reduce the social and ethical risks within the supply chain. Suppliers with manufacturing units located in high-risk countries, according to the Sedex definition, are examined with particular care using regular ethical third-party audits with a focus on health and safety, human rights, employment conditions and corruption. At the end of 2021, Essity had a total of 932 suppliers (1,008; 929) that share data via Sedex.

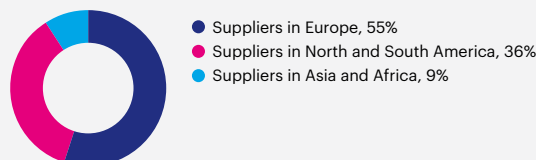
Certain materials, such as cotton and wood fiber, are considered to primarily have risks further down in the value chain. Essity takes further measures here, such as audits of sub-suppliers, or chooses certified raw materials that guarantee more sustainable extraction and production.

Share of total purchase cost¹⁾ from suppliers who comply with Essity's Global Supplier Standard

	2021	2020	2019	2018
Outcome	88%	83%	77%	64%

¹⁾ Excluding energy.

Geographical distribution of strategic suppliers 2021



Ethical audits conducted

Travel restrictions related to the COVID-19 pandemic have limited the number of audits conducted. During 2021, Essity evaluated the outcome from 49 ethical supplier audits, carried out in China, Mexico, Russia, South Africa, India, Sri Lanka, Brazil, Colombia, Malaysia and Estonia. Of these audits, 14 were carried out by Essity using an independent audit firm. The other 35 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 2021.

Ethical audits conducted

	2021	2020	2019	2018
Audits initiated by Essity ¹⁾	14	12	33	30
Audits initiated by customers ²⁾	35	25	19	29
Total number of audits	49	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 responsible sourcing and human rights on page 53.

H4. Innovation

Essity's target is that at least 50% of the company's innovations are to yield social and/or environmental improvements. In 2021, 59% (64; 69) 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.

Sustainable innovations

A product assortment 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 assortments over several years.

Lower climate impact through the use of innovation

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

The life cycle assessments performed by Essity have been subject to third-party reviews.

Read more about how Essity works with sustainable innovation on pages 44–49.

H5. 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, 60%, 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.

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 product safety on pages 42–43.

H6. Role in society and community relations

Essity invested approximately SEK 38m (49; 38) in over 400 projects in 2021. Most of the projects, to which company employees also allocate a large number of working hours (including staff management), were related to hygiene and health.

Essity's steering document for community relations states that Essity shall be politically and religiously neutral. The company must not make payments or product donations to political parties or candidates, or their institutions, agencies or representatives. Essity did not support any organizations or projects with political or religious aims in 2021.

Read more about Essity's role in society and community relations on pages 44–45.

Community relations (SEKm)

	2021
Charitable donations	28.6
Commercial initiatives	4.9
Community investments	4.3
Total	37.8
of which cash funds	21.8
of which products	16.0

H7. Fiber sourcing

Essity's target is that all raw materials derived from wood-based fresh fiber in the company's products and packaging are to be certified in accordance with FSC or PEFC. All wood-based fresh fiber must fulfill the FSC's Controlled Wood standard, as a minimum, to be eligible for purchasing. Target fulfillment in 2021 was 98%.

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 2021, Essity purchased 3.2 million tons of wood-based fresh fiber and 1.8 million tons of recycled fiber. Wood-based fresh fiber mainly comprises pulp, 99%, and the remainder comprises packaging, externally sourced mother reels and products manufactured by third parties. Of the sourced share of recycled fiber, 95% 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 recycled paper

	2021	2020	2019	2018	2017
Fiber used, million tons	5.0	5.1	5.3	5.1	5.3
of which, pulp consumption	3.2	3.2	3.1	3.0	3.1
share of total fiber use, %	64	62	60	60	59
of which, recovered paper consumption	1.8	1.9	2.1	2.1	2.2
share of total fiber use, %	36	38	40	40	41

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

	2021	2020	2019	2018	2017
FSC	63	59	57	48	39
PEFC	35	36	22	29	26
FSC Controlled Wood standard ²⁾	2	5	21	23	35
Total	100	100	100	100	100
Target fulfillment	98	95	79	77	65

¹⁾ The distribution applies to sourcing by wholly owned companies. Some information about the certification status for packaging data is reported with a one or two-year delay.

²⁾ Includes sourcing of fresh fiber to three of Essity's facilities in 2020 and 2021 as FSC Controlled Wood and evaluated against the standard for Controlled Wood (in accordance with Essity's policy). Due to the COVID-19 pandemic, the facilities have not yet implemented FSC Chain of Custody at the end of 2021. A share of mother reels and packaging purchased in 2021 from suppliers was not FSC Controlled Wood.

Despite the continued adverse impact of the COVID-19 pandemic in 2021, Essity has continued to utilize recycled fiber. Operations in North and South America used 79% recycled fiber, while the proportion of recycled fiber in Europe was 33%.

In 2021, Essity acquired the Australian hygiene company Asaleo Care and increased its shareholding in the Latin American hygiene company Familia. Essity has analyzed fiber supply and presented a plan to include the companies in the Essity Fiber sourcing policy in 2022.

H7. Fiber sourcing, cont.

As in 2020, restrictions due to the COVID-19 pandemic affected on-site audits in 2021. New questions concerning traceability have been added to the questionnaire, which will continue to be used, together with specific meetings.

Read more about how Essity works with fiber and biodiversity on page 48.

H8. Water

Withdrawal, use and discharge of water

Essity's reporting of water withdrawal states totals for surface water, ground-water and municipal water systems. Surface water, which represents the largest share of water withdrawal, 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.

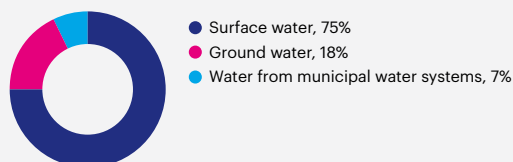
Essity's water discharge is divided into cooling water and process water. Cooling water has simply been heated and is not contaminated in any way. Process water is treated using mechanical and biological treatment systems before it is discharged.

In 2021, six of Essity's wholly owned paper mills were located in water-stressed areas with the risk of a water shortage. The sites accounted for 7% of Essity's total water withdrawal, distributed between 32% from surface sources, 44% from groundwater and the remainder from recycled water or from municipal water systems. Total water withdrawal from these facilities in 2021 was 6.7 million m³, water discharges 4.5 million m³ and water consumption 2.2 million m³.

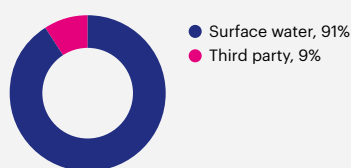
Any environmental incidents are registered in a central incident-reporting system. In 2021, no incidents relating to temporary exceedances of permitted limit values for waste water were registered. No incident was of such a magnitude that it posed a threat to an emissions permit.

Read more about how Essity works with water on page 48.

Source of water withdrawal 2021



Recipient of discharged water 2021



Water

Water, mm ³	2021	2020	2019	2018	2017
Water withdrawal	95	94	106	104	106
Water discharge	85	84	98	95	95
Water consumption ¹⁾	10	10	8	9	11

Water emissions, tons	2021	2020	2019	2018	2017
COD	6,730	6,527	6,760	7,049	7,478
BOD	942	858	813	851	875
Suspended solids	1,000	856	912	1,001	1,060
AOX	6	4	3	3	5
P	26	33	39	44	37
N	127	151	187	199	238

¹⁾ Water consumption is water withdrawn less water discharged.

H9. Packaging, plastics and waste

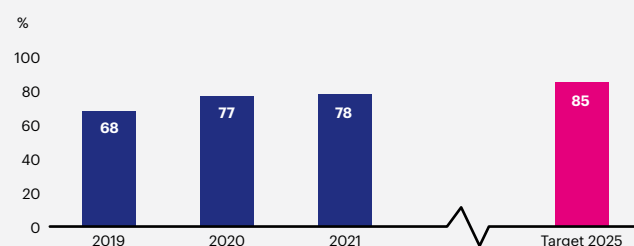
The packaging target for 2025 is that Essity is striving for 100% recyclability and 85% renewable or recycled material in the company's packaging. This target applies to both paper and plastic packaging for Essity's brands. Most of Essity's packaging comprises corrugated board and board for paper packaging and bags and flexible plastic film from polyethylene (PE) or polypropylene (PP) for plastic packaging. In 2021, Essity's packaging volume for its brands amounted to 172,800 tons (171,000 tons).

The proportion of renewable or recycled materials was 78% (77; 68). Of this figure, 81% (83) was recyclable. For plastic packaging, which accounts for about 23% of total packaging volume, 7% (3) was manufactured from renewable or recycled materials. Of this figure, the proportion of recovered plastic was 5% (2). The proportion of recyclable plastic packaging was 73% (77).

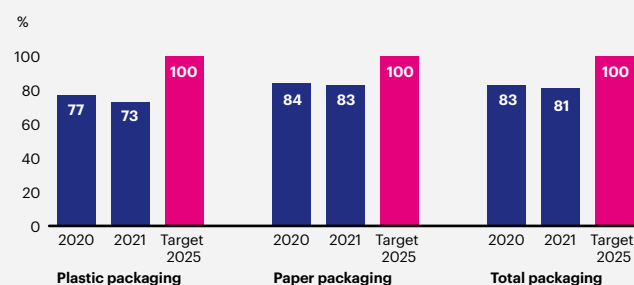
In 2021, Essity estimated the technical recyclability of a large portion of the company's packaging. Essity has thereby improved packaging design to facilitate recycling using existing infrastructures. Essity will continue to assess the technical recyclability of the remaining packaging in 2022 and 2023. Fossil-based plastic in the company's plastic packaging can be replaced with renewable plastic, recycled plastic or paper. When Essity develops new packaging, it assesses function, safety and environmental performance.

Read more about how Essity works with packaging on page 49.

Share of packaging manufactured from renewable or recycled material



Share of technical recyclability



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). In 2021, the total volume of waste decreased. The recycling rate from Essity's production facilities varies due to differences in national legislation. Volume changes in 2021 had a negative impact on the mix of material and energy recovery (-1%).

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 2021, 64% (65; 63) of Essity's waste was recovered. The target applies to wholly owned companies and the Australian hygiene company Asaleo Care and the Latin American hygiene company Familia were integrated in 2021. A small proportion, 0.2% or 3,080 tons, is hazardous waste, which is primarily waste oil, but also includes organic solvents, batteries and strip lights.

Production waste, ktons¹⁾

	2021	2020	2019	2018	2017
Disposal	516	494	573	667	634
of which landfill	507	487	545	641	607
of which other disposals	9	7	28	26	27
Recovered	932	998	1,103	987	1,040
Total waste	1,448	1,492	1,676	1,654	1,674
of which hazardous waste, landfill	0.9	0.8	7.7	1.4	1.3
of which hazardous waste, recovered	2.2	2.3	8.4	1.8	1.2

¹⁾ Data in the table represents the entire Essity Group and is therefore not equivalent to boundaries in Essity's production waste targets.

H10. Energy and emissions to air: 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 2021 was 19%.

Energy utilization

Energy efficiency, new technology and the increased 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. The majority of Essity's energy, both fuel and electricity, is used in tissue production. The production of Personal Care products primarily uses electricity and European facilities purchase certified renewable electricity with a certificate for guarantees of origin since 2020.

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. As a consequence of the COVID-19 pandemic, varying production volumes have had a negative impact on 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 include 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, H11).

The reported data is based on fuel use with associated emission factors. In Scope 2, data for emissions from electricity is calculated using a country's emission factors, while data for emissions from purchased steam are calculated on the basis of the fuel used by suppliers to generate the steam.

The EU Emissions Trading Scheme (EU ETS) and the UK Emissions Trading Scheme (UK ETS)

Essity had 16 production facilities included in EU ETS 2021 and 4 in UK ETS 2021. Essity's operations have a deficit of emission allowances in both the fourth phase of EU ETS (2021–2025) and the first phase of UK ETS (2021–2025). The deficit averages approximately 0.2 million tons per year in EU ETS and approximately 0.03 million tons per year in UK ETS for the period. The average market price for emission allowances in 2021 was about EUR 53.4 (24.8; 24.8) per ton in EU ETS and GBP 55.5 per ton in UK ETS. Essity purchased 210,000 (225,000; 240,000) EU emission allowances and 30,500 UK emission allowances to cover the annual deficit.

Energy and air emissions (Scope 1 and 2)

	2021	2020	2019	2018	2017
Production (ktons)	3,647	3,754	3,849	3,897	4,005
Total electricity, purchased (GWh)	4,275	4,296	4,459	4,532	4,567
Renewable electricity purchased	345	402	183	119	163
Non-renewable electricity purchased	3,930	3,894	4,276	4,413	4,404
Steam/heat purchased (GWh)	232	252	338	337	290
Steam/heat renewable	90	96	111	90	4
Geothermal steam	75	70	74	72	72
Steam/heat non-renewable	67	86	153	175	214
Total fuels (GWh)	7,977	8,094	8,799	8,878	8,885
Biofuels	1,178	1,129	1,336	1,376	1,398
Fossil fuels	6,799	6,965	7,463	7,502	7,487
Total energy (gross)¹⁾ (GWh)	12,484	12,642	13,596	13,747	13,742
Total renewable energy gross	1,688	1,697	1,704	1,657	1,637
Total non-renewable energy gross	10,796	10,945	11,892	12,090	12,105
Energy sold (GWh)	249	248	252	289	233
Renewable energy sold	166	167	155	179	171
Non-renewable energy sold	83	81	97	110	62
Total energy (net) (GWh)	12,235	12,394	13,344	13,458	13,509
Total renewable energy	1,522	1,530	1,549	1,478	1,466
Total non-renewable energy	10,713	10,864	11,795	11,980	12,043
Energy intensity (MWh/t)	3.4	3.3	3.5	3.5	3.4

GHG emissions (ktons)					
Scope 1, CO ₂ e	1,410	1,445	1,537	1,544	1,561
Scope 2, CO ₂ e (location based)	1,331	1,332	1,412	1,420	1,487
Scope 2, CO ₂ e (market based)	1,516	1,487	1,662	1,847	1,899

Biogenic CO₂ emissions (ktons)					
Biogenic CO ₂ from biofuel use	475	455	470	463	476
Biogenic CO ₂ from purchased steam	39	38	42	34	1

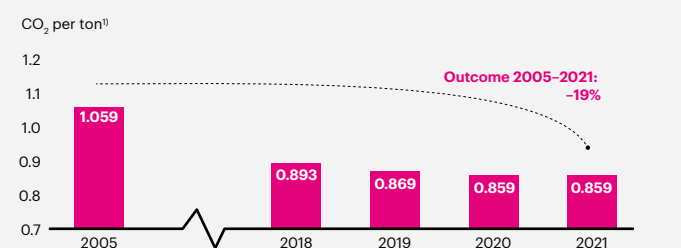
¹⁾ Total energy (gross) less energy sold = total energy net.

Other air emissions¹⁾, tons

	2021	2020	2019	2018	2017
NOx as NO ₂	1,631	1,771	1,530	1,770	1,831
SOx	463	488	586	676	789
Particulate matter	120	104	128	122	127

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

CO₂ intensity



¹⁾ Relates to tissue sites.

H11. Climate impact and Science Based Targets

Essity's target for 2030, with 2016 as the reference year, is to reduce absolute greenhouse gas emissions for Scope 1, 2 and 3 and is approved by the Science Based Targets initiative. The target applies to wholly owned companies. In terms of fuel use within the company (Scope 1) and purchased electricity and steam (Scope 2), Essity has raised its ambitions to reduce greenhouse gas emissions by 35% by 2030 compared with 2016. In addition, Essity has undertaken 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.

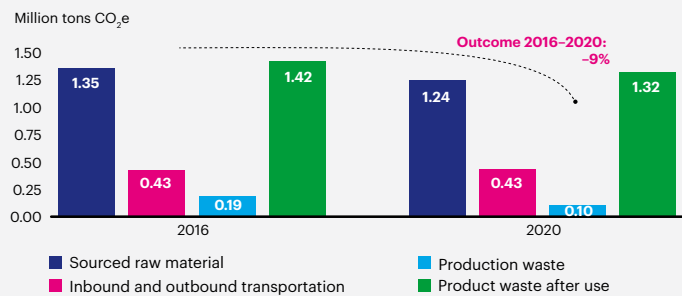
Scope 1 and 2

Essity's acquisitions, the Australian hygiene company Asaleo Care and the Latin American hygiene company Familia, were integrated in 2021. Emissions for the base year of 2016 were therefore restated to include equivalent emissions from Scope 1 and 2. The outcome for 2021 was -15% (-11; -5).

Scope 3

The most important categories in Scope 3 were emissions from purchased raw materials, transportation (inbound and outbound), 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. 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, including emissions from recently acquired companies. The outcome for 2020 was -9% (-4) for Scope 3.

Scope 3 emissions, Science Based Targets, results



Air emissions: Science Based Targets, ktons

	2021	2020	2019	2018	2017	2016
Scope 1, CO ₂ e	1,410	1,445	1,537	1,543	1,561	1,558
Prior year adjustment ¹⁾		78	85	90	89	84
Scope 2, CO ₂ e ²⁾	1,287	1,290	1,371	1,381	1,449	1,602
Prior year adjustment ¹⁾		5	3	-2	51	84
Total Scope 1 and 2, CO₂e	2,697	2,735	2,908	2,924	3,010	3,160
Scope 3, CO₂e		3,091	3,262			3,386

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

²⁾ Derived from location-based emission factors.

Read more about how Essity works with greenhouse gas emissions and Science Based Targets on pages 46-47.

H12. Employees

	2021	2020	2019	2018	2017
Personnel data¹⁾					
Average number of employees	46,275	46,084	45,980	47,222	46,385
of which companies fully integrated into HR platform	28,683	28,394	28,824	29,659	25,866
Permanent staff/temporary employees, ²⁾ %	81/19	81/19	82/18	81/19	80/20
Full-time/part-time, %	96/4	97/3	96/4	97/3	97/3
Total number of part-time staff	1,642	1,194	1,614	1,052	1,362
of whom women	968	875	1,210	980	930
Staff mobility¹⁾					
Number of employees who joined the Group	9,278	6,891	5,516	6,945	13,585
of whom, through acquisitions	677	190	23	36	5,518
Number of employees who left the Group	7,256	7,402	6,485	7,815	7,321
due to divestments	20	945 ³⁾	109	-	21
due to restructuring	105	260	345	544	584
due to retirement	468	443	524	383	418
of which temporary employees	959	1,939	1,420	1,799	1,857
Personnel turnover, excluding restructuring, retirements, divestments, temporary employees, %	12	8	9	11	10
of which companies fully integrated into HR platform, %	9	5	6	6	
of whom in jointly-owned companies, %	17	13	13	18	

¹⁾ Companies acquired in December 2021 (AquaCast Liner and Hydrofera) are not included in the 2021 numbers.

²⁾ Fixed-term employees in China with three or six-year contracts are classified as temporary employees.

³⁾ Since the divestment of Sancela Tunisia occurred at the end of the year, these are included in the "average number of employees" in 2020.

Diversity, equity and inclusion

The right competence and experience form the basis for Essity's success and value creation. Essity works to increase diversity, equity and inclusion. It makes the company stronger when employees are different and contribute with their unique expertise, background and experience, and complement each other.

In 2021, a new Vice President Diversity, Equity and Inclusion was recruited and a steering group appointed under the leadership of the CEO. During the year, Essity also presented a Group target that gender distribution at all management levels (Executive Management Team, senior management and middle management) is to be within the interval 40/60% no later than 2025. The target is reported at an aggregate outcome level for the three management levels and the outcome for 2021 was 32/68%.

	2021	2020	2019	2018	2017
Gender¹⁾					
Women/men, %	35/65	35/65	34/66	34/66	34/66
Women (total number Board members)	5 (12)	6 (12)	6 (12)	6 (12)	5 (13)
Women (total number Executive Management Team)	4 (13)	3 (12)	3 (12)	3 (12)	5 (14)
Women (total number senior management)	35 (104)	30 (98)	30 (98)	25 (101)	30 (117)
Women (total number middle management)	195 (622)	177 (607)	163 (580)	177 (641)	183 (696)
Gender distribution at management levels, % (total for Executive Management Team, senior management and middle management)	32/68	29/71	28/72	27/73	26/74
Age, %					
Employees under 20 years of age	1	1	1	1	1
21-30 years	18	18	22	21	22
31-40 years	33	34	32	33	33
41-50 years	26	26	25	25	25
51-60 years	18	18	17	17	16
Employees over 60 years of age	4	3	3	3	3
Nationalities¹⁾					
Total number of nationalities	124	117	112	105	102
Number of nationalities in Executive Management Team (number of members)	6 (13)	6 (12)	6 (12)	6 (12)	5 (14)
Number of nationalities in senior management (number of senior managers)	19 (104)	18 (98)	20 (98)	17 (101)	18 (117)
Number of nationalities in middle management (number of middle managers)	44 (622)	44 (607)	39 (580)	39 (641)	36 (696)

¹⁾ Refers to companies fully integrated into the HR platform.

Salary

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

Average combined salary¹⁾, %	2021	2020 ²⁾	2019 ²⁾	2018 ²⁾	2017 ²⁾
Women's median wage compared with men's (men's wage 100%)	94	93	95	96	97
Women's median wage compared with men's in senior management (men's wage 100%)	80	78	81	81	79
Women's median wage compared with men's in middle management (men's wage 100%)	91	92	92	92	92

¹⁾ Applies to full-time salaries (December 2021) for active employees from the five countries where Essity has most employees (Sweden, Germany, France, the USA and Mexico). Salaries for the President, Executive Vice President and CFO are excluded. Only refers to companies fully integrated into the HR platform.

²⁾ Average median wages have been restated for 2017-2020 and are now weighted based on the number of employees per country and at management level. Wages for the USA and Mexico are only included as of 2019.

The total pay difference between men and women is because Essity has more men at higher management levels. Essity is working so gender distribution at management levels is to be within the interval 40/60% no later than 2025.

H12. Employees, cont.

Performance and individual development

Engaged employees with the right competence who are continuously developing, form the basis for a successful Essity. An important foundation is that all employees have individual goals and development plans. Employees and line managers are expected to regularly follow up goals and ensure adequate support and development. Development activities are identified in dialogue concerning current work and future aspirations and include for instance leadership, functional skills and the “Beliefs & Behaviors” set of values. In 2020, a global, digital HR platform was introduced that encompasses shared processes for the entire company. Essity is implementing the system in the company’s business groups and units on an ongoing basis. The table below reflects most of the development offered by the company to its employees and which is administered in the Essity Learning Management System. Certain local instructions and training of employees at production facilities are managed outside of the system.

Number of internal training hours (thousand) ¹⁾	2021	2020	2019	2018	2017
Total number of internal training sessions	210.0	166.8	114.0	81.2	140.8
of which digital training sessions	89.6	93.6	39.5	23.8	24.6
of which virtual sessions	92.3	40.9	1.9	0.9	0.0
of which physical training sessions	28.2	32.3	72.7	56.5	116.2
The number of training hours per employee	7	6	4	3	5

¹⁾ Refers to companies fully integrated into the HR platform.

Investments in skills-enhancement activities	2021	2020	2019	2018	2017
Total, SEKmn	136	115	117	141	152
per employee, SEK	2,940	2,500	2,500	3,000	3,300
Value added (SEK) per employee	775	826	800	661	666
Return on human capital	1.58	1.73	1.61	1.50	1.59

Internally appointed vacancies ¹⁾ , %	2021	2020	2019	2018	2017
Vacancies appointed through internal candidates	20	23	23	28	26

¹⁾ Refers to companies fully integrated into the HR platform.

Employee goals and engagement

Essity’s winning culture is based on the company’s purpose to break barriers to well-being and the company’s “Beliefs & Behaviors”. From the outset, Essity has conducted regular employee surveys to monitor employee engagement. In 2020, “Pulse Surveys” were launched for white-collar employees and these were extended in 2021 to include all employees.

Culture and development ¹⁾ , %	2021	2020	Long-term goals
Individual goals	57	²⁾	100
of which white-collar employees	90	93	100
Individual development plans ³⁾	42	²⁾	100
of which white-collar employees	78	65	100
Employee engagement	79	90 ⁴⁾	above global benchmark

¹⁾ Refers to companies fully integrated into the HR platform

²⁾ In 2020, Essity implemented a new tool for Goal Setting and Development, which was introduced solely for white-collar employees during 2020.

³⁾ Individual goals are measured on a continuous basis.

⁴⁾ Includes solely white-collar employees due to the COVID-19 pandemic.

Employee relations ¹⁾	2021	2020	2019	2018	2017
Percentage of Essity’s employees covered by collective bargaining agreements	67	68	68	63	61

¹⁾ Refers to companies fully integrated into the HR platform.

Read more about how Essity works with employees on pages 50–52.

H13. Health and safety

Essity's health and safety policy guides the company's journey toward a risk-free safety culture. In 2021, the company began to measure the Total Recordable Injury (TRI) Frequency Rate to highlight accidents that require medical treatment. This is supported by Essity's Group target to reduce the Total Recordable Injury Frequency Rate by 75% by 2025 and continue to conduct purposeful and systematic work with safety issues in all of Essity's production facilities. The term "potential consequences" was introduced in 2021 to identify potential incidents that, in a worst-case scenario, could result in injury or fatality. This enables global action and a fast-learning/preventive culture in the company's production facilities.

In 2021, Essity continued to follow the daily priorities the company established at the start of the COVID-19 pandemic: care for our people, contribute to society and secure business success. The health and safety of the company's employees remains a priority and Essity's crisis team offers continuous advice and guidance to the supply chain to guarantee continuity in operations.

In 2021, two tragic accidents occurred that resulted in two contractor fatalities. Essity's continues its intensive work to reduce risks and the on-going improvements of the company's risk analyses. During 2022, Essity will prioritize on a number of risk areas, such as machine safety and contractor management. This is supported by the company's upcoming work-place related safety leadership training program. The training program will be rolled out in production facilities for all employees over the next few years, to strengthen the company's leadership and approach to sustainable working.

Accidents¹⁾

	2021	2020	2019	2018	2017
Fatalities, employees (F)	–	–	–	–	–
Lost Time Accidents (LTA)	152	133	166	195	199
Restricted work cases (RWC)	12	4	11	19	11
Medical treatment cases (MTC)	37	188	209		
Total recordable incidents (TRI)	201	325	386		
Total recordable incident rate (TRI-R) (TRI/1,000,000 WH)	4.1	6.4	7.1		
Total recordable incident rate, IR (TRI-IR) (TRI/200,000 WH)	0.8	1.3	1.4		
Lost time accident frequency rate (LTA-FR) (LTA/1,000,000 WH)	3.3	2.7	3.3	3.8	3.8
Lost time incident Rate (LTA-IR) (LTA/200,000 WH)	0.7	0.5	0.7	0.8	0.8
Contractor fatalities (CF)	2	0	0	0	1
Contractor lost time accidents, CLTA	35	30	34	50	34
Zero recordable incident sites (based on TRI)	25	14	20		
Number of sites included in reporting	85	81	86	85	85
Working hours, (1,000,000)	49.6	50.4	54.1	56.7	54.4

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

Sickness absence

	2021	2020	2019	2018	2017
Sickness absence, % ¹⁾	5.2	5.3	5.2	4.9	4.9
Scope of reporting, % of companies integrated into Essity's HR platform	54	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.

Read more about how Essity works with health and safety on page 52.

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 or ISO 13485 for medical technical classification is the most important quality management system used by Essity. The company implements the international standard ISO 45001 (Occupational Health and Safety Assessment Series) to ensure that uniform processes are used within the entire company and that Essity's units continuously improve workplace-related health and safety.

Certified volumes, Essity's main sites¹⁾, %

	2021	2020	2019	2018	2017
ISO 9001/ISO 13485	78	77	80	77	76
ISO 14001	82	81	75	80	85
ISO 45001/OHSAS 18001	84	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. The table excludes the acquisition of the hygiene companies Asaleo Care and Familia.

PC16. Proposed disposition of earnings

Annual accounts 2021

Disposition of earnings Essity Aktiebolag (publ)

Non-restricted equity in the Parent company:	
retained earnings	81,447,665,538
net profit for the year	2,110,908,688
Total	83,558,574,226
The Board of Directors and the President propose:	
to be distributed to shareholders, a dividend of SEK 7.00 per share	4,916,397,423
to be carried forward	78,642,176,803 ¹⁾
Total	83,558,574,226

¹⁾ The company's equity would have been SEK 235,130,502 lower if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14 of the Swedish Annual Accounts Act.

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

Stockholm, February 22, 2022

Ewa Björling
Board member

Pär Boman
Chairman of the Board

Annemarie Gardshol
Board member

Magnus Groth
President,
CEO and
Board member

Susanna Lind
Board member,
employee representative

Torbjörn Lööf
Board member

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 28, 2022
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Essity Aktiebolag (publ) except pages 55–65 and 123–131 for the year 2021. The annual accounts and consolidated accounts of the company are included on pages 6–8 and 22–136 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 2021 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 2021 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 55–65 and 123–131. 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 2021 amounted to 51.9 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 2021 which amounted to 6.3 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2021. Our audit has also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2021. 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 2021 in order to confirm that they are in accordance with signed agreements and also accrued correctly in the accounting. Finally, we have audited manual journal entries related to bonus and rebates to confirm that sufficient documentation and suitable attestations exist for these entries.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–5, 9–21 and 137–145. 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 Directors' 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, actions taken to eliminate threats or related safeguards applied.

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

Report on the audit of the administration and the proposed appropriations of the company's profit or loss

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Essity Aktiebolag (publ) for the year 2021 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 scepticism 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 ESEF report

Opinion

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528) for Essity Aktiebolag (publ) for the financial year 2021.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the ESEF report [SHA256-checksum: e6533add7f4b836a9262ef81be7907b0936611c23306f453d2c8f54a4cbaeea2] has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for opinion

We have performed the examination in accordance with FAR's recommendation RevR 18 **Examination of the ESEF report**. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility section. 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.

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

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 Esef report in accordance with Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Esef report.

The audit firm applies ISQC 1 **Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements** and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional ethical requirements, professional standards and legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design audit procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a technical validation of the Esef report, i.e. if the file containing the Esef report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the Esef report has been marked with iXBRL which enables a fair and complete machine-readable version of the consolidated statement of financial performance, financial position, changes in equity and cash flow.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 55–65 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's standard RevR 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 35–54 and 123–131, 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 in accordance with the requirements of the Annual Accounts Act.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Essity Aktiebolag (publ) by the general meeting of the shareholders on the 25 March 2021 and has been the company's auditor since the 27 May 2016.

Stockholm 28 February 2022
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
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Essity's 2021 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.

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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.	125
CG-HP-250a.2	Revenue from products that contain substances on the California DTSC Candidate Chemicals List (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.	125
CG-HP-250a.3	Discussion of process to identify and manage emerging materials and chemicals of concern	44-45, 125
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	126
CG-HP-410a.2	Discussion of strategies to reduce the environmental impact of packaging throughout its lifecycle	126
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 2020, Essity sourced 1 274 tons of palm oil, of which 99.9% 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: In 2021, Essity sold 2.9 million tons of tissue products. The figure relates to companies that were wholly owned throughout the 2021 calendar year.	-
CG-HP-140a.2	Number of manufacturing facilities	123

GRI index, cont.

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)	54		Risk management
	203-2	Significant indirect economic impacts	20-21, 44-52		
Anti-corruption GRI 205: Anti-corruption 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	53, 54		Business ethics Transparency
	205-1	Operations assessed for risks related to corruption and the transparency-significant risks identified	123-124		
	205-3	Actions taken in response to confirmed incidents of corruption	123-124		
Anti-competitive Behavior GRI 206: Anti-competitive Behavior 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	54		Business ethics Transparency
	206-1	Anti-trust and monopoly court cases	124		
Environment					
Energy GRI 302: Energy 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	54		Climate change, Waste/circularity and plastics
	302-1	Energy consumption within the organization	127		
	302-4	Reduction of energy consumption	127		
Water GRI 303: Water and Effluents 2018	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)			Water
	303-1/2		54		
	303-3	Water withdrawal	126		
	303-4	Water discharge	126		
	303-5	Water consumption	126		
Emissions GRI 305: Emissions 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	54		Climate change, Water, Waste/circularity and plastics, Fiber sourcing
	305-1	Direct greenhouse gas (GHG) emissions (Scope 1)	127, 128		
	305-2	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	127, 128		
	305-3	Other indirect greenhouse gas (GHG) emissions (Scope 3)	127, 128		
	305-4	GHG emissions (Scope 3)	128		
	305-7	NO _x , SO _x and other significant air emissions	127		
Waste GRI 306: Waste 2016	103-1/2/3 ¹⁾ -306-1/2	Disclosure on management approach (DMA)	54		Water, Waste/ circularity and plastics
	306-3	Waste generated	126-127		
	306-4	Waste diverted from disposal	126-127		
	306-5	Waste directed to disposal	126-127		
Social performance indicators					
Employment GRI 401: Employment 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50-52, 54		Human capital
	401-1	New employee hires and employee turnover	129		
Health and safety GRI 403: Occupational Health and Safety 2018	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50-52, 131		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)	50-52, 54, 129-130		Human capital
	404-3	Percentage of employees receiving regular performance and career development reviews	130		
Diversity and equal opportunities GRI 405: Diversity and Equal Opportunity 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50-52, 54, 129		Human capital
	405-1	Composition of governance bodies and employee breakdown	51, 62-63, 129		
	405-2	Ratio of basic salary and remuneration of women to men	129		
Non-discrimination GRI 406: Non-discrimination 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	50, 53, 54		Business ethics Transparency
	406-1	Actions taken in incidents of discrimination	124		
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)	52		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)	53, 54		Business ethics Transparency
	408-1	Measures taken to eliminate child labor in risk areas	123-124	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)	53, 54		Business ethics Transparency
	409-1	Measures taken to eliminate forced or compulsory labor in risk areas	123-124	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)	53, 54		Human rights Business ethics Transparency
	412-2	Employee training on human rights	123-124	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)	53, 54		Human rights Business ethics Transparency
	414-2	Significant potential and actual negative impacts in the supply chain and actions taken	124		
Marketing and Labeling GRI 417: Marketing and Labeling 2016	103-1/2/3 ¹⁾	Disclosure on management approach (DMA)	44-45, 54, 145		Customer and consumer satisfaction, Safe products
	417-1	Product information required by procedures	44-45, 125		

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), corp id 556325-5511

Introduction

We have been engaged by the Board of Essity Aktiebolag (publ) to undertake a combined assurance engagement of the Sustainability Report for Essity Aktiebolag (publ) for the year 2021. The scope of the Sustainability Report has been defined on pages 137–138.

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 123, 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 127. 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, 28 February 2022
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Outi Alestalo
Expert member of FAR

Remuneration report 2021

Essity Aktiebolag (publ)
to be presented at the 2022 Annual General Meeting (AGM)

Introduction

This report describes how the guidelines for remuneration of senior executives of Essity AB, as adopted by the 2021 AGM, were applied in 2021. 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 Board's Remuneration Rules. More information about remuneration of senior executives is available in Note C (Employees) on pages 91–95 in the Annual and Sustainability Report for 2021. Information about the work of the Remuneration Committee in 2021 is presented in the Corporate Governance Report on pages 55–65 in the Annual and Sustainability Report for 2021.

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 93 of the 2021 Annual Report.

1. Key events and key figures in 2021

The President summarizes the company's overall performance in his statement on pages 4–5 in the Annual and Sustainability Report for 2021.

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

The remuneration guidelines, as unanimously adopted by the 2021 AGM, and the application of these are described on pages 91–92 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 this entails 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 taking 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 2021 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, and are decided at Group level and apply for 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 strategic 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 2021 consisted of profit 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.

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

SEK	Fiscal year	Fixed remuneration		Variable remuneration ¹⁾		Extraordinary benefits	Pension costs	Total salary and remuneration	Proportion fixed and variable remuneration (%)
		Fixed salary	Other benefits and remuneration	Short-term remuneration	Long-term remuneration				
Magnus Groth President and CEO	2021	15,750,000	120,921	1,053,281	0	0	6,555,851	23,480,053	96/4
Fredrik Rystedt CFO and Executive Vice President	2021	7,878,000	60,549	526,841	0	0	2,462,785	10,928,175	95/5

¹⁾ Variable remuneration pertains to 2021 but is paid in 2022.

Table 2. Outcome of the short-term program 2021 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)	17.5%	11.2%	0
	Operating cash flow (adjusted ¹⁾)	17.5%	SEK 9.8bn	0
	Organic sales growth	35%	3.3%	344,531
	<i>Performance target</i>			
	Profit for the period (adjusted)	21%	SEK 9.3bn	0
	Science Based Targets, Scope 1 and 2	9%	-15%	708,750
	<i>Organizational target</i>			
	EBITA margin (adjusted)	21%	11.2%	0
	Operating cash flow (adjusted ¹⁾)	28%	SEK 9.8bn	0
Fredrik Rystedt CFO and Executive Vice President	Organic sales growth	21%	3.3%	172,331
	<i>Performance target</i>			
	Profit for the period (adjusted)	21%	SEK 9.3bn	0
	Science Based Targets, Scope 1 and 2	9%	-15%	354,510

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

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 price 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 average TSR-value during the final quarter before the start of the measurement period is 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 22, 2022

¹⁾ <https://www.essity.com/company/corporate-governance/remuneration-policy/>

Table 3. Outcome of long-term program 2021 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 2021 (SEKm)	Year-on-year change – 2021/2020		Year-on-year change – 2020/2019		Year-on-year change – 2019/2018	
		(SEKm)	(%)	(SEKm)	(%)	(SEKm)	(%)
Magnus Groth President and CEO	23.5	-3.6	-13%	-6.4	-19%	7.6	29%
Fredrik Rystedt CFO and Executive Vice President	10.9	-1.8	-14%	-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.	1.4	-0.2	-12%	-0.2	-9%	0.3	18%
Company's performance – Profit for the period (adjusted)	9,363	-2,442	-21%	1,039	10%	1,210	13%

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