Breaking barriers to well-being

"I live with lymphedema and in my work at Essity in compression therapy, with our leading brand JOBST, my colleagues and I help others in a similar situation."

Annual and Sustainability Report 2019
Essity Aktiebolag (publ)

essity

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The Board of Directors' Report and financial statements

The Annual and Sustainability Report 2019 for Essity Aktiebolag (publ) has been submitted by the Board of Directors and describes the company's overall objectives and strategies and earnings for the year. The aim is to describe the business from an economic, social and environmental perspective. The Board of Directors' Report and financial statements are presented on pages 6–8 and 22–126 and include the auditor's report. Pages 34–45 and 114–121 encompass Essity's statutory sustainability report according to the requirements stated in the Annual Accounts Act. The company's business model can be found on pages 12–13. The report was prepared in accordance with GRI Reporting Standards: Core. It also constitutes Essity's Communication on Progress (COP) to the UN Global Compact.

JOBST: A complete assortment of compression therapy solutions for venous and lymphatic conditions, from support compression for everyday life to medical wear.

Our business areas

Personal Care page 22

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This is Essity

Essity is a leading global hygiene and health company. We improve people's well-being with our leading hygiene and health solutions. Sales are conducted in approximately 150 countries under the globally leading brands TENA and Tork, and other strong brands, such as JOBST, Leukoplast, Libero, Libresse, Lotus, Nosotras, Saba, Tempo, Vinda and Zewa. Essity is listed on Nasdaq Stockholm.

Net sales 2019	Employees, approximately	Market capitalization at Dec 31, 2019
128,975 SEKm	**46,000**	**212** SEKbn

Our strengths

Improving well-being and contributing to a sustainable and circular society	Essity's vision is: Dedicated to improving well-being through leading hygiene and health solutions. We achieve this by offering our solutions to more people around the world, by constantly improving our customer and consumer offering and by promoting awareness of hygiene and health. We develop production, offerings and business models to contribute to a sustainable and circular society, which also creates new business opportunities for Essity. We have the highest MSCI ESG rating.
Strong brands and successful innovations	Essity is the global market leader in incontinence products with the TENA brand and in professional hygiene with the Tork brand. We also have strong brands and market positions in the markets for baby care, feminine care, medical solutions and consumer tissue. Important aspects of our innovation work are to develop market-leading digital solutions and contribute to a sustainable and circular society.
Leading positions in an attractive market	Essity has sales in approximately 150 countries. We hold the number one or number two position within at least one product category in approximately 90 countries. Several trends in our external environment are favorable for Essity's growth, such as a growing and aging population, higher disposable income, increased access to health care and greater awareness of hygiene and health.
Sustainable business model with profitable growth	Using a sustainable business model and a focus on profitable growth, Essity strives to achieve Group targets relating to organic sales growth, profitability and sustainability and to generate long-term value creation. Over the past five years, Essity's net sales has increased 47% and the annual increase in organic net sales[1)] amounted to 3.6%. Over the same period, adjusted EBITA[2)] rose 67% and the adjusted EBITA margin[2)] increased 1.5 percentage points.
A high-performing organization with a winning corporate culture	Essity has a winning corporate culture characterized by courage, care, collaboration and commitment to results. Our employees receive training in our Code of Conduct to purse operations in a responsible manner, which benefits the company, society and the environment. Essity was named Sweden's most attractive employer in 2019[3)].
Focus on efficiency improvements and cost savings	Essity continuously works to improve efficiency in order to strengthen competitiveness, improve financial performance and reduce environmental impact. We are leveraging digitalization, innovation, global economies of scale and knowledge sharing to create a world-class value chain.

[1)] Net sales excluding exchange rate effects, acquisitions and divestments. [2)] Excluding items affecting comparability. [3)] By the recruitment and staffing agency Randstad.

2019 at a glance

Key events

Successful innovations and marketing campaigns
Successful innovations have increased customer and consumer value while decreasing the environmental impact. Innovations were launched in all of Essity's product categories. Essity has received several awards for innovative solutions and marketing campaigns.

SEK 13bn in online sales
Online sales increased to approximately SEK 13bn, corresponding to about 10% of net sales.

Group-wide cost-savings program
The Group-wide cost-savings program, which was launched in September 2018, has been concluded and at the end of 2019 savings amounted to slightly above SEK 900m on an annualized basis.

Divestment of the jointly owned company in Turkey
Essity has exited the Baby Care segment in Turkey through the divestment of its 50% stake of the jointly owned company SCA Yildiz.

Investments in sustainable alternative fiber technology
A decision was taken to invest approximately SEK 400m in an integrated facility for the production of pulp based on alternative fibers from plant-based agricultural by-products.

UN Foundation and Essity convene Global Dialogue
As part of our efforts to break barriers to well-being that are linked to hygiene and health and to contribute to achieving the global sustainable development goals, Essity was convening partner for the fourth consecutive year for the UN Foundation's Global Dialogue at the UN headquarters in New York.

Additional sustainability targets for packaging
Essity strives for 100% recyclability of packaging and has set additional packaging targets, for example that 85% of the company's packaging is to be manufactured from renewable or recycled material by 2025. The new targets are part of Essity's commitment within the framework of the Ellen MacArthur Foundation's plastics initiative "New Plastic Economy" where Essity is an active member.

Magnus Groth, President and CEO of Essity, spoke at the UN Foundation's annual dialogue. Here together with Kathy Calvin, President and CEO of United Nations Foundation.

Bodyform PureSensitive™ a feminine care product with a new revolutionary top layer for sensitive intimate skin.


Essity has taken a decision to invest in the production of pulp based on alternative fibers from plant-based agricultural by-products.

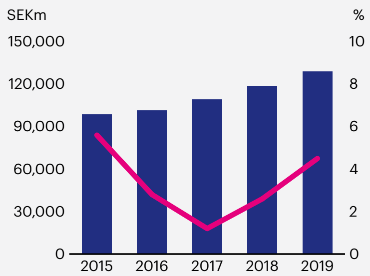
Key figures

Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.5%, of which volume accounted for 2.3% and price/mix for 2.2%. Organic net sales increased 2.1% in mature markets and increased 9.1% in emerging markets. Emerging markets accounted for 37% of net sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 22% (16% excluding currency translation effects, acquisitions and divestments) to SEK 15,840m (12,935). The adjusted EBITA margin rose 1.4 percentage points to 12.3%.

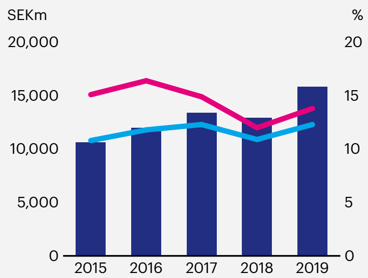
Net sales **128,975** SEKm	Organic net sales[1)] **+4.5**%	Operating cash flow **15,639** SEKm
Adjusted EBITA[2)] **15,840** SEKm	Adjusted EBITA margin[2)] **12.3**%	Adjusted return on capital employed[2)] **13.8**%
Adjusted earnings per share[3)] **14.69** SEK	Earnings per share **13.12** SEK	Proposed dividend per share[4)] **6.25** SEK

Net sales



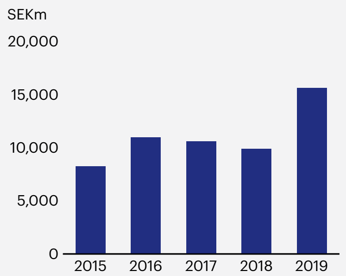
Net sales
Organic net sales[1)]

Earnings trend



Adjusted EBITA[2)]
Adjusted EBITA margin[2)]
Adjusted return on capital employed[2)]

Operating cash flow



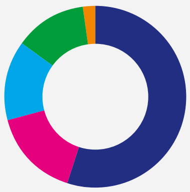
Net sales by business area

Personal Care, 37%
Consumer Tissue, 39%
Professional Hygiene, 24%

Net sales by distribution channel

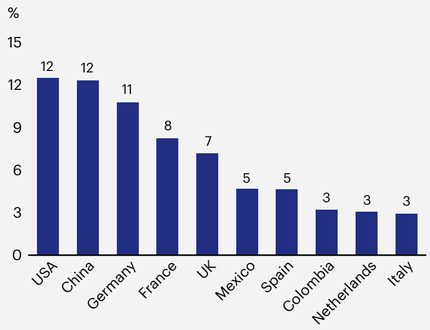
Retail trade, 58%
Business-to-business, 24%
Healthcare sector, 18%

Net sales by region



Europe, 55%
Asia, 16%
North America, 14%
Latin America, 13%
Other, 2%

The Group's largest markets, % of net sales



1) Excluding exchange rate effects, acquisitions and divestments. 2) Excluding items affecting comparability.
3) Excluding items affecting comparability and amortization of acquisition-related intangible assets. 4) Board of Directors' dividend proposal.

Strengthened competitiveness yields higher earnings

2019 was a year of strong growth and improved profitability. Through price increases, improved product mix, higher volumes and cost savings, we have more than offset the significant headwinds over the past two years from higher raw material costs. Successful innovations and investments in sales and marketing have strengthened market positions and brands. As part of ongoing efforts to contribute to a sustainable and circular society, we established additional sustainability targets for packaging with a special focus on plastic packaging. We are working actively to break barriers and increase knowledge of hygiene and health.

Strong growth and higher earnings
In 2019, the Group's organic net sales increased 4.5% and net sales amounted to approximately SEK 129bn. All business areas reported good growth. Adjusted EBITA increased 22% and the adjusted EBITA margin rose 1.4 percentage points to 12.3%. Price increases, a better product mix, higher volumes and cost savings had a positive impact on earnings. The adjusted return on capital employed rose by 1.8 percentage points to 13.8%. Earnings per share increased 17% to SEK 13.12. The Board of Directors proposes an increase in the dividend of 9% to SEK 6.25 per share.

Clear strategy
Our portfolio strategy provides a clear prioritization of the different categories and geographies for profitable growth. We have therefore prioritized investments in innovation and sales and marketing for market positions with high profitability. Activities to improve underperforming market positions continued and resulted in improved profitability in several markets.

Successful innovation activities have increased customer and consumer value and decreased the environmental impact. For example, during the year Tork Xpressnap Fit® was launched, a new napkin dispenser system, and TENA Silhouette, an incontinence product with superior protection that is similar to normal underwear.

During the year, we achieved cost savings of approximately SEK 1.1bn, of which SEK 456m was related to continuous cost savings and SEK 637m to the Group-wide cost-savings program. The program has been concluded and at the end of 2019, savings amounted to slightly above SEK 900m on an annualized basis. Through operational efficiency improvements, material rationalization and sourcing savings, we have achieved a more cost-efficient value chain.

Strong presence in emerging markets
We have a strong presence in China, Southeast Asia, Latin America, Eastern Europe and Russia. Emerging markets accounted for 37% of net sales, and organic net sales increased by 9.1%. In Latin America, we strengthened our market positions and organic net sales increased 10%. In China, our Asian subsidiary Vinda strengthened its position as market leader in tissue and launched Feminine Care with the Libresse brand during the year. In Asia, organic net sales increased 11%. Our ambition is that emerging markets will continue to grow as a share of net sales and earnings in the future.

Sustainable solutions
Climate change has become even clearer in 2019. Essity has for many years worked with sustainability throughout our value chain: from responsible raw material sourcing, more efficient production with a smaller climate footprint, and sustainable solutions to customers and consumers. We have Group targets for the climate impact of innovations, materials and production. Our ambitious targets to reduce carbon emissions have been verified by the Science Based Targets initiative and are in line with the ambition of the Paris agreement to limit global warming. We

Tork Xpressnap Fit® was launched during the year and is a new napkin dispenser system for restaurants and cafés that offers greater efficiency with its compact design and serves more guests between refills.

have packaging targets that mean at least 85% of the company’s packaging is to be manufactured from renewable or recycled material by 2025. The new targets are part of Essity’s commitment within the framework of the Ellen MacArthur Foundation’s plastics initiative “New Plastic Economy” where Essity is an active member.

At the same time, we will continue to grow and this places demands on the need to make a transition and on new production methods and circular business models. Our investment in sustainable alternative fiber technology for tissue manufacturing is one example of this.

We also help our customers become more sustainable and circular. With our world-leading Tork brand, we launched tissue dispensers that reduce consumption while maintaining functionality. Essity’s Tork Papercircle®, the world’s first recycling service for paper hand towels, is one example of a unique circular offering that a growing number of customers joined in 2019.

Contribution to the UN Sustainable Development Goals

Our leading hygiene and health solutions contribute toward the UN’s goal for health and well-being. We support the UN Global Compact, a call for companies to adapt their strategies and operations to international principles concerning human rights, labor law issues, environment and anti-corruption.

We are working actively to break barriers and increase knowledge of hygiene and health, and activities during the year included educating children and young people in matters relating to hygiene.

Digital progress

Digitalization is rapidly changing purchasing behavior and the boundaries between different sales channels are being erased. We are developing our offerings to ensure they are available and attractive regardless of channel and platform with the aim of gaining a larger market share online than offline. Our online sales increased in 2019 by 16% to approximately SEK 13bn, corresponding to about 10% of net sales. We are also attracting customers through our digital solutions: Tork EasyCube, the first software solution for data-driven cleaning, and TENA Identifi, a digital solution that is revolutionizing continence care in elderly care operations. Digital solutions in production and logistics have increased efficiency, product quality and delivery reliability.

“Successful innovations have strengthened our market positions and brands.”

Employees drive successful change

Our employees are essential for our success and we strive continuously to develop the corporate culture and leadership as well as promoting lifelong learning to create the best possible conditions for continued success. Our corporate culture is characterized by care for customers, consumers, society and the environment as well as by courage, collaboration and commitment to results.

Strengthened competitiveness

At Essity, we work every day to create value for our customers, consumers and shareholders and to contribute to a circular society and develop our employees. Improved earnings and cash flow have strengthened the balance sheet, which means we can again grow through acquisitions, with Medical Solutions as one prioritized area. Together with my colleagues around the world, I look forward to continuing to strengthen our competitiveness and striving for an even more successful and value-creating Essity.

Magnus Groth
President and CEO

The Essity share

Essity shares are quoted and traded on Nasdaq Stockholm. Essity's market capitalization was SEK 212bn at December 31, 2019.

Share price performance in 2019

In 2019, the price of Essity's B share rose 39%. During the same period, the OMX Stockholm 30 Index rose 26% and MSCI Household Products Index rose 22%. The closing price of Essity's B share at year-end was SEK 301.80. The highest closing price for Essity's B share during the year was SEK 307.20, which was noted on September 4. The lowest closing price was SEK 217.10 on January 7.

The total shareholder return for Essity's B share for the year was 42%. The total shareholder return for the OMX Stockholm 30 Index was 31% and for MSCI Household Products Index 25%.

Dividend and dividend policy

Essity aims to provide long-term stable and rising dividends to its shareholders. When cash flow from current operations exceeds what the company can invest in profitable expansion over the long term, and under the condition that the capital structure target is met, the surplus shall be distributed to the shareholders.

The Board of Directors proposes an increase in the dividend of 9% to SEK 6.25 (5.75) per share for the 2019 fiscal year. The 2019 dividend represents a dividend yield of 2.1%, based on Essity's share price at the end of the year.

Index

On Nasdaq Stockholm, Essity is included in the OMX Stockholm 30 Index, OMX Nordic 40 Index and in the Personal & Household Goods sector within Consumer Goods. In addition to indexes directly linked to Nasdaq Stockholm, Essity is included in other indexes, such as the FTSE Eurofirst Index and FTSE All World Index. Within MSCI, Essity is included in Household Products Index within Consumer Staples. Essity is also represented in sustainability indexes such as the FTSE4Good and has the highest MSCI ESG rating of AAA.

Shareholders structure

43% of the share capital is owned by investors registered in Sweden and 57% by foreign investors. The US and the UK account for the highest percentage of shareholders registered outside Sweden.

Beta coefficient

The beta coefficient for Essity's B share was 0.35 in 2019. A beta coefficient of less than 1 indicates that the share is less sensitive to market fluctuations than the average.

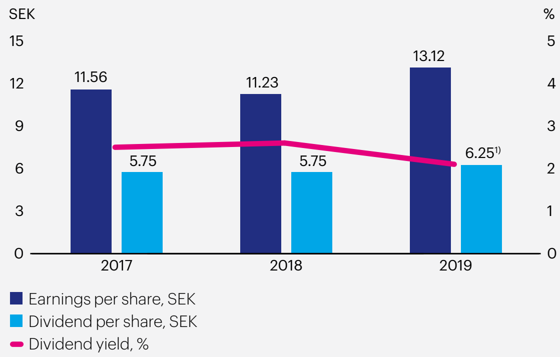
Liquidity

In 2019, the volume of Essity shares traded on Nasdaq Stockholm was about 362 million, corresponding to a value of approximately SEK 100bn. Average daily trading for Essity on Nasdaq Stockholm amounted to approximately 1.4 million shares, corresponding to a value of approximately SEK 400m.

Earnings per share, 2019
13.12 SEK

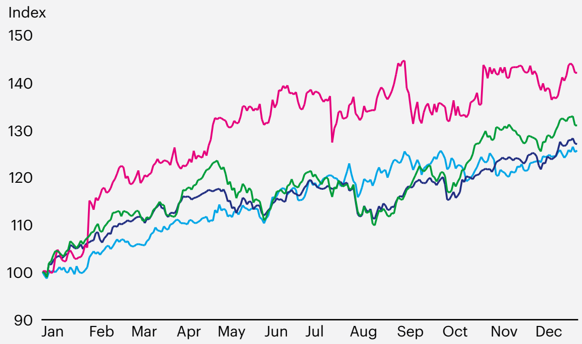
Proposed dividend per share, 2019[1)]
6.25 SEK

Earnings, dividend and dividend yield

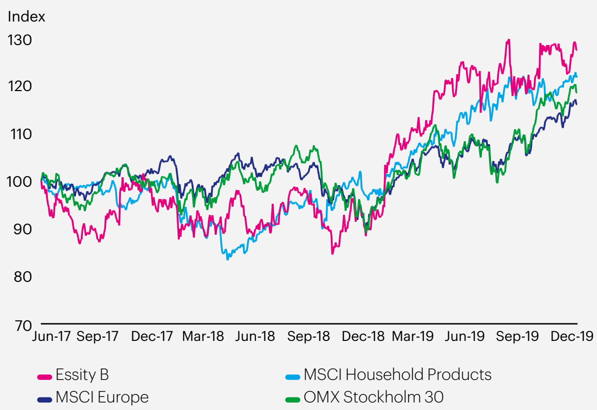


1) Board of Directors' dividend proposal.

Total shareholder return 2019



Total shareholder return, June 15, 2017 – December 31, 2019



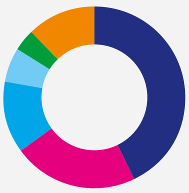
Essity's largest shareholders

At December 31, 2019, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights:

Shareholders	Votes (%)	Capital (%)
AB Industrivärden	29.2	9.5
Norges Bank Investment Management	6.8	3.6
AMF Insurance and Funds	4.2	3.4
MFS Investment Management	2.7	5.0
SHB Oktogonen Foundation	2.1	0.4
Skandia	1.8	0.6
Swedbank Robur Funds	1.7	3.0
SEB Investment Management	1.1	2.0
SHB Pension Fund	1.0	0.2
Nordea Investment Funds	0.8	1.5
Other owners	48.6	70.8
Total	**100.0**	**100.0**

Essity Aktiebolag (publ) holds no treasury shares.
Source: Euroclear, December 31, 2019

Ownership by country



- Sweden, 43%
- US, 22%
- UK, 13%
- Luxembourg, 6%
- Belgium, 4%
- Other countries, 12%

Total foreign ownership, 57%

Source: Euroclear, December 31, 2019

Shareholders structure

Holding	No. of shareholders	No. of shares	Capital (%)	Votes (%)
1–1,000	75,015	18,542,028	2.6	3.0
1,001–10,000	13,760	37,214,210	5.3	6.1
10,001–20,000	640	9,049,068	1.3	1.3
20,001–	963	637,537,183	90.8	89.6
Total	**90,378**	**702,342,489**	**100.0**	**100.0**

Source: Euroclear, December 31, 2019

Share distribution

	Class A	Class B	Total
Number of registered shares	63,934,642	638,407,847	702,342,489

In 2019, 58,129 Class A shares were converted to Class B shares at the request of shareholders. The total number of votes in the company subsequently amounted to 1,277,754,267.
Source: Euroclear, December 31, 2019

Market share

%	2019	2018
Nasdaq Stockholm	68	75
CBOE	23	19
Turquoise	2	3
Other	7	3
Total	**100**	**100**

Source: Nasdaq Stockholm, Essity

Ticker names

Nasdaq Stockholm	ESSITY A, ESSITY B
Bloomberg	ESSITYA:SS, ESSITYB:SS
REUTERS	ESSITYa.ST, ESSITYb.ST

Data per share

SEK per share unless otherwise indicated	2019	2018
Earnings per share:	13.12	11.23
Adjusted earnings per share[1]	14.69	13.32
Average price for Essity's B share	278.28	225.72
Closing price for Essity's B share, December 31	301.80	217.60
Cash flow from current operations[2]	18.81	9.06
Cash flow from operating activities	27.55	18.74
Dividend	6.25[3]	5.75
Dividend yield, %	2.1	2.6
P/E ratio[4]	23	19
P/E ratio, excluding items affecting comparability[4]	21	16
Price/EBITA[5]	17	18
Price/EBITA, excluding items affecting comparability[5]	17	16
Beta coefficient[6]	0.35	0.55
Pay-out ratio (before dilution), %	48	51
Equity, after dilution effects	89	78
Number of registered shares, December 31 (millions)	702.3	702.3

1) Excluding items affecting comparability and amortization of acquisition-related intangible assets.
2) See definitions of key figures in Note A2, pages 64–69.
3) Board of Directors' dividend proposal.
4) Share price at year-end divided by earnings per share.
5) Market capitalization plus net debt plus non-controlling interests divided by EBITA. (EBITA = operating profit before amortization of acquisition-related intangible assets).
6) Share price volatility compared with the entire stock exchange.

Share capital development

The table below shows the development of the company's share capital since 2017.

Year	Event	Change in number of Class A shares	Change in number of Class B shares	Total number of Class A shares	Total number of Class B shares	Total number of shares	Change in share capital, SEK	Total share capital, SEK	Quotient value, SEK
2017	Bonus issue[1]	64,589,523	637,747,966	64,594,523	637,747,966	702,342,489	2,349,866,980	2,350,366,980	3.35
2017	Conversion	-454,085	454,085	64,140,438	638,202,051	702,342,489	–	2,350,366,980	3.35
2018	Conversion	-147,667	147,667	63,992,771	638,349,718	702,342,489	–	2,350,366,980	3.35
2019	Conversion	-58,129	58,129	63,934,642	638,407,847	702,342,489	–	2,350,366,980	3.35

1) At the Annual General Meeting, held on April 5, 2017, shareholders resolved on a bonus issue. The purpose of the bonus issue was to increase the share capital and number of shares so they would correspond to the number of shares in SCA ahead of SCA's distribution of Essity.

Examples of awards and sustainability index:

MSCI
CDP DRIVING SUSTAINABLE ECONOMIES
FTSE4Good

Information to shareholders

Annual General Meeting
The Annual General Meeting of Essity Aktiebolag (publ) will be held on Thursday, April 2, 2020 at 3:00 p.m. at the *Stockholm Waterfront Congress Centre*, Nils Ericsons Plan 4, Stockholm, Sweden. Registration for the Annual General Meeting will start at 2:15 p.m.

Registration and notification of attendance
Shareholders who wish to attend the Annual General Meeting must
be listed in the shareholders' register maintained by Euroclear Sweden AB on Friday, March 27, 2020, and
give notice of their intention to attend the meeting no later than Friday, March 27, 2020.

Notification may be given in any of the following manners:
- by telephone +46 8 402 90 80, weekdays between 8:00 a.m. and 5:00 p.m.
- on the company website www.essity.com
- by mail to Essity Aktiebolag (publ), Group Function Legal Affairs, P.O. Box 200, SE-101 23 Stockholm, Sweden

The following applies to shareholders who have their shares registered through a bank or other nominee in order to be entitled to attend the meeting. Apart from giving notice of attendance, such shareholders must have their shares registered in their own names. Such registration in the shareholders' register must have been completed with Euroclear Sweden AB at the latest on Friday, March 27, 2020. Shareholders should in such case inform their bank or nominee of this in due time before Friday, March 27, 2020. Such registration can be temporary.

Name, personal identity number/corporate registration number, address and telephone number, and number of accompanying persons, if any, should be stated when notification is given. Shareholders represented by proxy should deliver a proxy in the original to the company prior to the Annual General Meeting. Proxy forms are available upon request and on the company website www.essity.com. Anyone representing a corporate entity must also present a copy of the registration certificate, not older than one year, or equivalent authorization document, listing the authorized signatories.

The Notice convening the Annual General Meeting can be found on the company website www.essity.com.

Nomination Committee
- Helena Stjernholm, AB Industrivärden, Chairman of the Nomination Committee
- Jonas Jølle, Norges Bank Investment Management
- Stefan Nilsson, Handelsbanken Pension Funds and others
- Anders Oscarsson, AMF and AMF Fonder
- Pär Boman, Chairman of the Board, Essity

The Nomination Committee prepares, among other things, the proposal for election of Board members. For further information, refer to the Corporate Governance Report on pages 46–55.

Dividend
The Board of Directors proposes a dividend of SEK 6.25 per share and that the record date for the dividend be Monday, April 6, 2020.
Payment through Euroclear Sweden AB is expected to be made on Thursday, April 9, 2020.

Financial information 2020–2021

Interim Report	Jan 1–Mar 31, 2020	April 23, 2020
Half-year Report	Jan 1–Jun 30, 2020	July 17, 2020
Interim Report	Jan 1–Sep 30, 2020	October 22, 2020
Year-end Report	2020	January 27, 2021
Annual and Sustainability Report	2020	March 2021

Annual and sustainability reports, year-end reports, half-year reports and interim reports are published in Swedish and English (in the event of differences between the English translation and the Swedish original, the Swedish text shall prevail) and can be downloaded from Essity's website www.essity.com.

Subscriptions
Subscription to Essity's press releases, annual and sustainability reports, year-end reports, half-year reports and interim reports can be done by registering on the Essity website www.essity.com.

Our external environment and market

In drawing up Essity's business strategy, we analyze our external environment and market as a means of identifying external trends, drivers, opportunities and risks.

The foundation of our strategy is a materiality analysis where Essity and the company's stakeholders rank the issues and areas that are perceived as being important for the company. Read more about the results of the 2019 materiality analysis on page 40. The annual strategy process includes an analysis phase and assessment of the risks present in the business units. A description of the most significant risks that impact Essity's opportunities to achieve its established targets, and how these risks are managed, is presented on pages 34–39.

Trends and drivers

We identify and analyze how trends and drivers affect Essity in order to capitalize on the opportunities that arise and to address the associated risks.

Growing and aging population

The world's population is growing and living longer. By 2020, the population of the world over the age of 60 is expected to have increased to over one billion. This growing population is resulting in an increased demand for hygiene and health products and thus creating favorable growth opportunities for Essity. The greatest global population increase is expected to occur in Asia, Latin America and Africa. An aging population is increasing demand for incontinence products and medical solutions, both in mature and emerging markets. For example, the occurrence of incontinence among people over the age of 65 is estimated to be between 15 and 20%. Incontinence, which is classified as a disease by the World Health Organization (WHO), affects 4–8% of the world's adult population, corresponding to approximately 400 million people.

Higher disposable income and living standards

At the same time as the population is growing, the level of poverty in the world is decreasing. Once people's most basic needs for food and shelter are met, hygiene becomes a top priority. Higher disposable income and living standards increase demand for hygiene and health products.

Greater awareness of hygiene and health

Limited access to hygiene and sanitation is a major global challenge. There is a growing awareness of the relationship between good hygiene and health, and how this improves well-being in the world, as indicated by the UN's 17 Sustainable Development Goals. We prioritize goals 3, 5, 6, 12, 13 and 15, as our business can best contribute to change and development in these areas.

Market growth for hygiene and health products is positively impacted by increased awareness of the importance of hygiene to avoid diseases and improve health.

Increased access to health care

Access to health care is increasing above all in emerging markets along with rising prosperity and increasing urbanization. The healthcare sector accounted for 18% of Essity's total net sales in 2019.

Increased prevalence of chronic conditions

Increased prevalence of chronic conditions and greater life expectancy of people with chronic conditions are expected to increase demand for incontinence products and medical solutions.

Digitalization

Digitalization entails substantial changes and opportunities. The manner in which products and services are developed, produced, purchased, paid for and consumed is rapidly changing, largely driven by digitalization. For Essity, digitalization offers a variety of opportunities to improve and evolve all parts of our value chain. We are digitalizing production, administration and logistics to achieve efficiency and quality improvements. In product development, we are working to create digital solutions that improve our offering to customers and consumers. Essity is striving for synergies between different sales channels and that customers and consumers recognize the offering regardless of channel and platform.

Development of new business models

New business models are needed as a result of digitalization and the greater focus on sustainable and circular solutions. At Essity, we develop business models and offerings to help our customers become more cost-efficient, digital and sustainable.

The empowered consumer

Digitalization offers consumers today limitless opportunities to assess the market and purchase products. Consumers are therefore increasingly well informed and demand transparency about the products and services they buy. Essity is actively engaged in dialogue with customers and consumers and monitors the discussions on our own websites and in social media to receive feedback and to constantly improve.

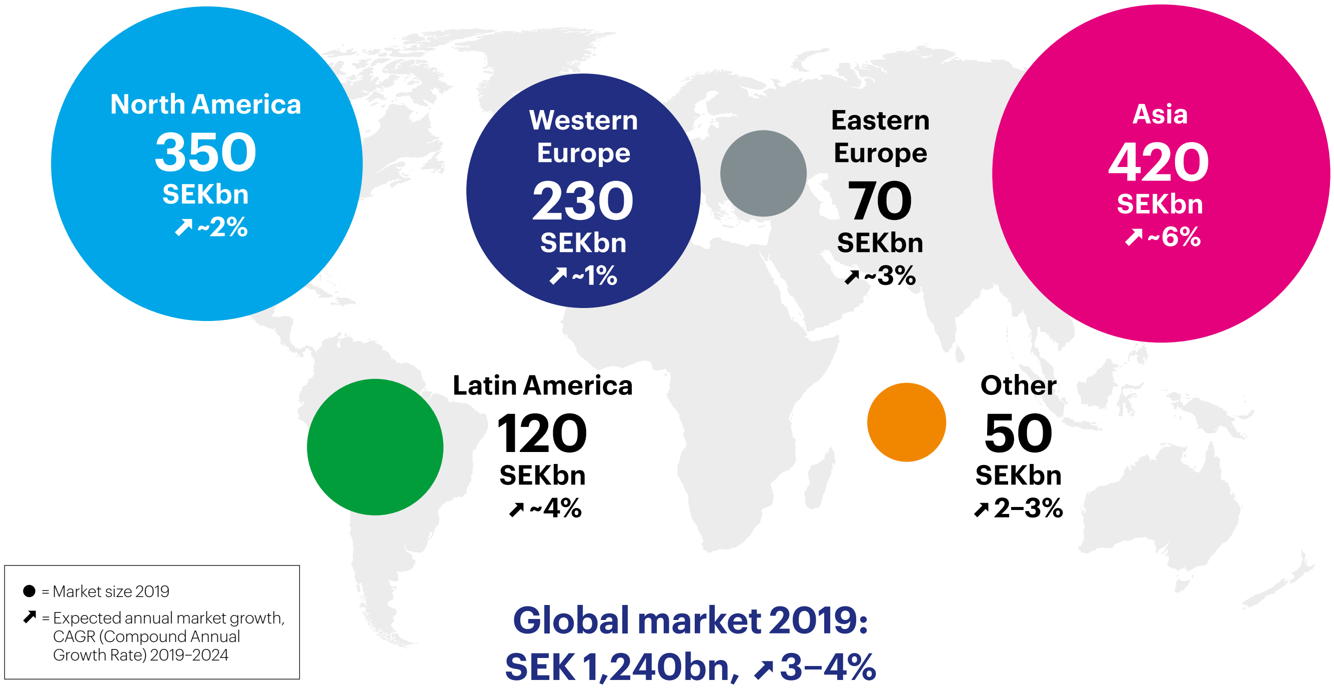
Continued focus on sustainability

The rising awareness worldwide about sustainability issues, climate change and resource scarcity means every company must integrate these issues into their business models to remain successful in the long term. For Essity, sustainability issues have always been closely linked to business benefits and value creation. Essity promotes sustainable consumption by being innovative in how we meet the needs of customers and consumers and aims to develop solutions for a sustainable and circular society. We strive to reduce environmental impact and resource consumption throughout the life cycle of our products and services.

Our business contributes to the UN Sustainable Development Goals

We believe that the work to fulfill the sustainability goals will make the world a better place while offering favorable business opportunities. We are working to overcome global challenges together with customers, consumers, suppliers and other partners. We have elected to specifically focus on goals 3, 5, 6, 12, 13 and 15 where we can make a contribution through our operations, expertise and experience.

The hygiene and health market



Source: The information has been compiled by Essity for presentation purposes based on statistics taken from external market sources, including IRI, Fastmarkets RISI, Price Hanna Consultants, SmartTRAK and National Macro Economics.

The hygiene and health market
In 2019, the global hygiene and health market amounted to approximately SEK 1,240bn, of which personal care accounted for approximately SEK 610bn and tissue accounted for approximately SEK 630bn.

Personal care is divided into baby care (approximately SEK 250bn), feminine care (approximately SEK 140bn), incontinence products (approximately SEK 100bn) and medical solutions (approximately SEK 120bn). Tissue is divided into consumer tissue (approximately SEK 470bn) and professional hygiene (approximately SEK 160bn).

In 2019, the hygiene and health market in mature markets amounted to approximately SEK 660bn and in emerging markets to approximately SEK 580bn.

Emerging markets
The growth potential is greatest in emerging markets where market penetration of hygiene and health products is significantly lower than in mature markets and where urbanization, infrastructure, retail trade, online and health care are evolving rapidly. Furthermore, such trends as increased disposable income and population growth are particularly evident in emerging markets.

Essity is prioritizing growth in selected emerging markets, such as China, Southeast Asia, Latin America, Eastern Europe and Russia.

One example of the lower market penetration in emerging markets is that the consumption rates for incontinence products in Asia are only about one-sixth of those in Western Europe. Another example is that tissue consumption in Eastern Europe is only about one-third of that in Western Europe.

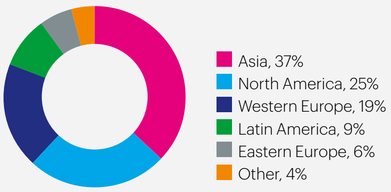
Mature markets
In mature markets, baby care and feminine care have attained high market penetration. However, market penetration for incontinence products in mature markets is still relatively low for certain product segments, particularly among men, which Essity believes is due to lack of awareness and the stigma associated with incontinence. Many indicators point to the proportion of people affected increasing on a global scale as a result of an aging population.

Growth in tissue is occurring in mature markets through lifestyle changes and innovations that lead to increased use.

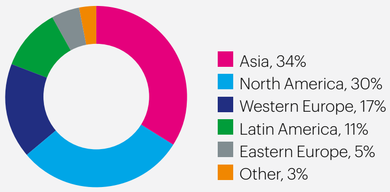
Essity's market positions
Essity is the global market leader in incontinence products with the TENA brand and in professional hygiene with the Tork brand. Essity also has strong brands and market positions in the markets for baby care, feminine care, medical solutions and consumer tissue. Essity's competitors in personal care include Kimberly-Clark, Mölnlycke, Procter & Gamble, Smith & Nephew, 3M and Unicharm. Its competitors in tissue include Georgia-Pacific, Hengan, Kimberly-Clark and Sofidel.

Global market by region

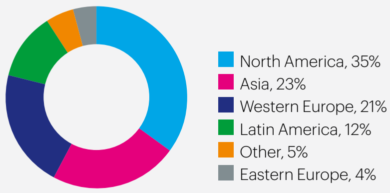
Personal Care



Consumer Tissue

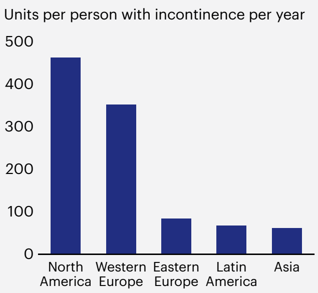


Professional Hygiene

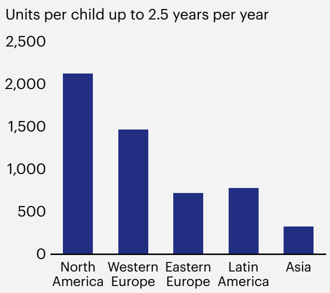


Use

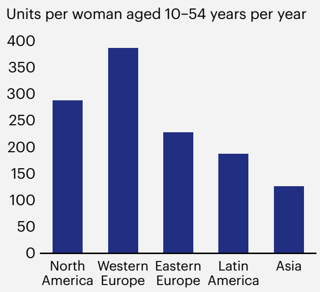
Incontinence Products



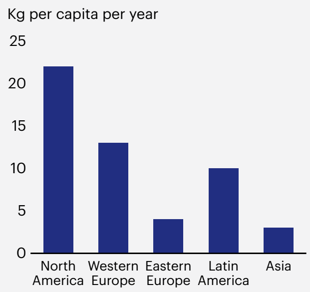
Baby Care



Feminine Care



Tissue



Essity's market positions

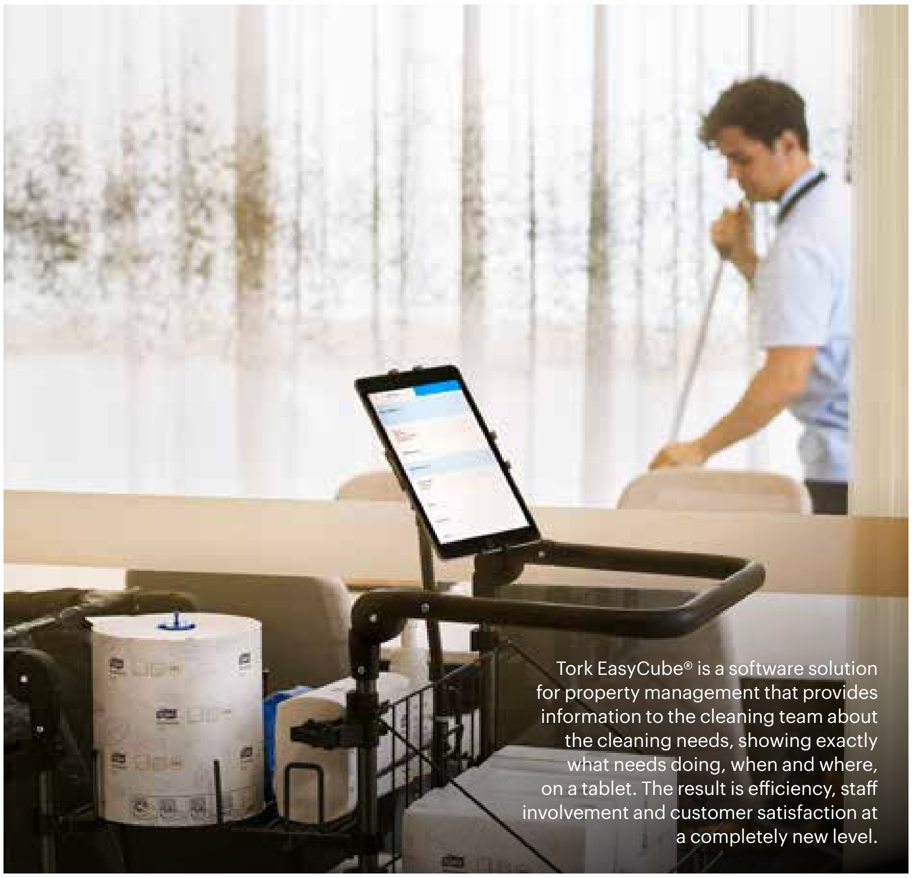
	Global	Europe	North America	Latin America	Asia	
Incontinence Products	1	1	4	1	3	TENA
Professional Hygiene	1	1	2	4	3	TORK
Consumer Tissue	2	1	–	3	1	Lotus, Tempo, Vinda, Zewa, Plenty, Regio, Edet
Medical Solutions	4	1	12	3	2	Leukoplast, JOBST, Delta-Cast, Actimove, Cutimed
Baby Care	5	2	–	6	6	Libero, Lotus Baby, Drypers, Pequenin
Feminine Care	6	3	–	1	10	Bodyform, Libresse, Nana, Saba, Nosotras

Source: The information has been compiled by Essity for presentation purposes based on statistics taken from external market sources, including IRI, Fastmarkets RISI, Price Hanna Consultants, SmartTRAK and National Macro Economics.

Strategic framework and business model

Through the vision: Dedicated to improving well-being through leading hygiene and health solutions, Essity strives to achieve long-term value creation for shareholders, customers and consumers, society and employees. Our strategy and operations are based on a sustainable business model aimed at achieving profitable growth and responsible value creation, with our customers and consumers as the focal point.

In our updated strategic framework, our digital agenda is integrated into all strategies to achieve greater customer and consumer benefit, efficiency and profitable growth. Our digital offerings to our customers are being continuously developed. Online sales increased in 2019 and amounted to 10% of net sales. Digitalization enables more efficient processes in administration as well as purchasing, production and logistics. We actively share information about hygiene and health and communicate with our customers and consumers through social media. The development influences all of our activities and generates a multitude of opportunities. We invest in technology, innovation, collaboration and communication to capitalize on these.



Tork EasyCube® is a software solution for property management that provides information to the cleaning team about the cleaning needs, showing exactly what needs doing, when and where, on a tablet. The result is efficiency, staff involvement and customer satisfaction at a completely new level.

Business model focused on profitable growth and responsible value creation

- Approximately 46,000 employees
- Equity amounted to approximately SEK 63bn
- Net debt amounted to approximately SEK 51bn
- Essity had a solid investment grade rating

Customer and consumer insights

The starting point for Essity's operations is customer and consumer insights. Through knowledge about people's daily needs and challenges, we create an offering that improves quality of life for people every day.

Innovation

Essity has a global unit that works with global brands, innovation and sustainability. There are also innovation centers in China, France, Germany, Mexico, Sweden, and the US.

Strategic framework

VISION

Dedicated to improving well-being through leading hygiene and health solutions

MISSION

To sustainably develop, produce, market and sell value-added products and services within hygiene and health

Objectives

Generate increased **shareholder** value through profitable growth

Enable more **people** every day to enjoy a fuller life

Contribute to a sustainable and circular **society**

Enable our **employees** to realize their full potential, as part of one winning team

Read more on pages 18–21

Strategies

Win in chosen **geographies** and **categories**

Focus on **customers** and **consumers**

Digitalization

Innovate leading **brands**

Drive **efficiency**

Read more on pages 14–17

Sourcing and Production

In 2019, Essity purchased raw materials and consumables for approximately SEK 44bn. The main raw materials are pulp, recovered fiber and oil-based materials. Essity has around 90 production facilities worldwide.

Marketing and Sales

Essity's marketing costs amounted to 5.1% of net sales in 2019. An increasing share of marketing is conducted through social media. We have sales in approximately 150 countries. In 2019, the retail trade accounted for 58% of Essity's net sales, business-to-business for 24% and the healthcare sector for 18%.

Leading hygiene and health solutions

Essity is the global market leader in incontinence products with the TENA brand and in professional hygiene with the Tork brand. Essity also has strong brands in other product categories. Essity holds the number one or number two position within at least one product category in approximately 90 countries and has a well-developed and efficient "go-to-market" model.

Strategies

Win in chosen geographies and categories

We aim to hold a number one or number two position in the geographies and product categories where Essity chooses to operate. We compare ourselves with the best competitors in each product category in each geographic market and aim to perform better or in line with the best.

Win in all channels

Digitalization is rapidly changing purchasing behavior and the boundaries between different sales channels are being erased. Our offerings are available and attractive regardless of channel and platform. We aim to have a higher market share online compared with offline in all markets and for all product categories. This means we are investing in technology, innovation, collaboration and communication with the aim of winning in all channels.

Geographic presence

Essity has a clear priority for which geographic markets it wants to operate in, and which product categories it will offer in these markets. We have sales in approximately 150 countries and in about 90 of these, Essity holds the number one or two position in at least one product category. As the potential for growth is higher in emerging markets, because market penetration of hygiene and health products is lower than in the mature markets, our ambition is to increase emerging markets' share of net sales and profit. We are prioritizing growth in selected emerging markets such as China, Southeast Asia, Latin America, Eastern Europe and Russia, where we already have strong market positions.

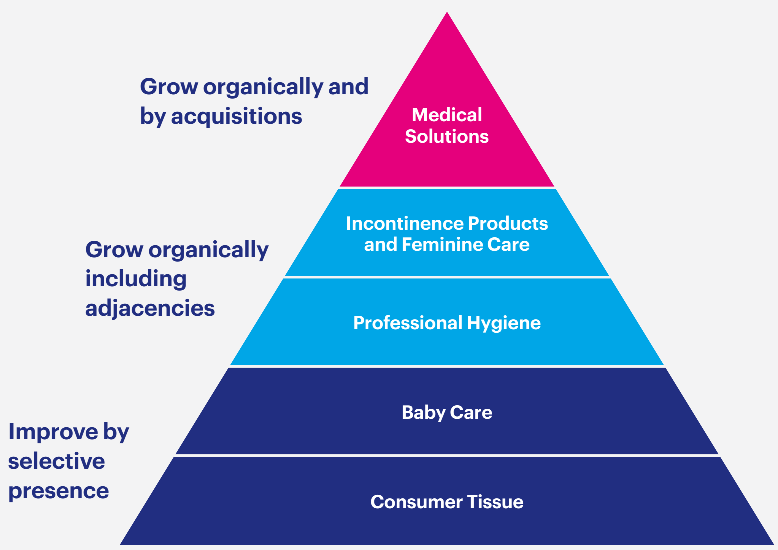
Expanding the offering

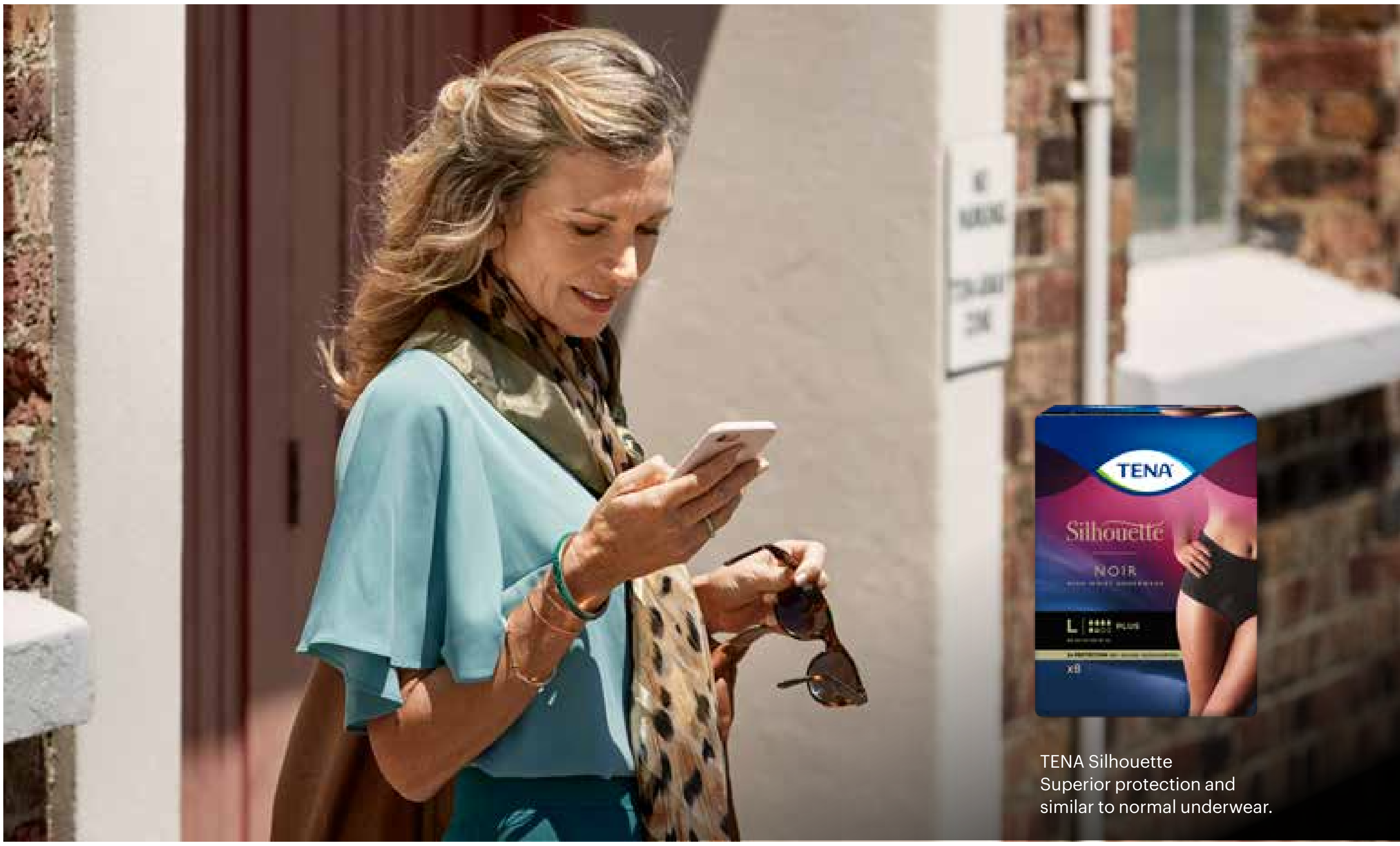
To grow our product categories and strengthen market positions, we are improving and expanding our offerings through adjacencies. We achieve this organically through innovations and collaborations but also through acquisitions of technology and product offerings. Today, Essity's offering includes wet wipes, skincare products and soap in several product categories. Expanding the customer offering is also about providing service and solutions to customers and consumers and developing digital solutions and sustainable business models that increase our customers' efficiency and reduce environmental impact.

Profitable growth

Essity creates value through profitable growth. Every product category in each market must generate a certain level of profitability if growth is to create value. We prioritize growth in product categories with the highest margins and our ambition is that these will account for an increasing share of Essity's net sales. Activities to improve underperforming market positions continued and resulted in improved profitability in several markets.

Portfolio strategy





TENA Silhouette
Superior protection and similar to normal underwear.

Focus on customers and consumers

Essity's products and services with leading brands help to simplify everyday life for hundreds of millions of people. To achieve this, we spend a large amount of time with our customers, consumers, users, resellers and distributors. This enables our innovation and marketing teams to develop solutions based on a unique insight into the needs, challenges and expectations of our customers and consumers.

Breaking barriers to well-being
To improve people's well-being, we strive to share knowledge of and provide access to our hygiene and health solutions. We achieve this by conducting a global dialogue and through education, for example in schools, as well as through marketing campaigns. Increasingly, we reach our current and future customers and consumers through social media.

Successful marketing
We break barriers through bold marketing. The globally acclaimed campaign "Viva la Vulva" for our Feminine Care brands is one example of our ability to deliver world-class marketing by drawing attention to needs and demonstrating situations experienced by many. Essity received 13 awards at the Cannes Lions International Festival of Creativity, including the most prestigious Titanium Lion, the Gold Glass Lion for Change and four additional Gold Lions.

Omni-channel
We are to be present where our customers and consumers are, which means our products and services must be available in several channels and on different platforms. For example, our Incontinence Products solutions are available via the healthcare sector, in the retail trade, and online, including our own TENA webshops. Our webshops have developed to help our consumers with information about incontinence and available solutions, and provide an opportunity to order and receive the products delivered home, discretely.

Examples of awards in 2019

Marketing Excellence:
Cannes Lions International Festival of Creativity
13 Lions, including five Gold Lions, Titanium, and Glass Lion for Change
Feminine Care

AIM European Brands Association
Nudging for Good "Coup de Coeur" Award
Consumer Tissue brand Zewa, Hungary

Digital Excellence:
Pharmaceutical Marketing Society Digital Awards 2019
Health Care Professionals Education Training and Support
For Essity's Facebook Live education series
Health and Medical Solutions

Commercial Excellence:
North American VIP Partner Award from Gordon Food Service
Best Collaboration Award from Office Depot
Professional Hygiene

Best Supplier of the Year:
Best Supplier Across All Categories
Best Supplier Groceries & Health
Best Supplier Ecommerce Groceries
by Walmart Mexico and Central America

Bodyform PureSensitive™ is a new feminine care range. Made from skin-friendly ingredients, respects your pH balance and sensitive skin.

Innovate leading brands

Through innovation we create value for our customers and consumers, which strengthens our brands and market positions. Innovation is one of our most important competitive advantages. We have two starting points for our innovation work; on the one hand, innovation should be in response to an actual customer or consumer need, on the other hand, it should yield an improvement in environmental terms. By leveraging our global presence and economies of scale, we strive to accelerate the pace of innovation and the impact of every innovation.

We want to make a difference

Through innovation, we want to make everyday life easier for people and launch solutions that make a difference. Feminine Care's launch of PureSensitive™ for our leading brands Libresse, Bodyform and Nana is one such example. A new range of products was developed after women expressed a need for feminine care products that are particularly gentle on the skin. We therefore developed a pad and panty liner with a new revolutionary top layer that is optimized for sensitive intimate skin. The range also includes intimate washes and wipes. The products are free from allergens, dyes and fragrances. In France, the Nana PureSensitive™ panty liner was named Product of the Year 2020.

Digital and sustainable innovations

We continuously develop our offerings to help our customers become cost-efficient, digital and sustainable. Tork EasyCube, data-driven cleaning, is one example of a cost-efficient digital service that has continued to generate new and more satisfied customers in 2019. Our circular offering, Tork PaperCircle®, which recycles used paper hand towels, has also strengthened our world-leading Tork brand and reduced the environmental impact of our customers. Within Consumer Tissue, our first coreless toilet paper has helped to reduce environmental impact and increased sales. We continue to prioritize the development of solutions that contribute to a sustainable and circular society and strive to launch solutions for efficient recycling or composting.

Innovation
Examples of awards in 2019

Product of the Year Gold Award 2020
by Lebensmittel Praxis Germany
For Tempo Quick and Easy Box

Product of the Year France
For Lotus Moltonel Sans Tube

Product of the Year UK
For Cushelle Ultra Quilted

Product of the Year France
For Okay Pratic Essuie-Tout

Product of the Year UK
For Plenty Home Collection

Product 2020 France
For Nana PureSensitive

Middle East Cleaning, Hygiene
and Facilities Award
Most Innovative Product 2019
For Tork PeakServe

Think ahead.

Drive efficiency

Essity works continually to improve efficiency by increasing productivity, reducing material, energy and logistics costs and minimizing waste. This strengthens our competitiveness and enhances our financial performance while reducing environmental impact. We are working to leverage digitalization, innovation, global economies of scale and knowledge sharing to increase efficiency in the supply chain and create a world-class value chain.

Zero workplace accidents
Health and safety is a top priority at Essity and we aim for zero workplace accidents. To ensure the best possible conditions, we regularly review work procedures and machinery safety, and assess the need for investments. Our employees receive continuous training to enable everyone to identify risks in time and to eliminate accidents. We strive to nurture a culture where unsafe working conditions and behaviors are immediately reported and rectified. In 2019, Essity held its fifth global safety week with activities in hazard elimination and safety awareness.

Digitalization of the value chain
Digitalization enables more efficient processes in administration as well as sourcing, production and logistics. During the year, we continued to implement digital solutions throughout operations, including self-regulating processes, smart sensors, data analyses, robotization and automation to achieve the lowest cost position combined with the best quality.

Reduced resource consumption and environmental impact
A reduction in resource consumption, for example, through innovation, material rationalization and lower energy use, is one important measure to achieve our targets in terms of adjusted return on capital employed and carbon emissions. We strive to reduce material and energy consumption, for example through our MSAVE and ESAVE programs.

Significant cost savings
In 2019, Essity achieved cost savings of SEK 1,093m, of which SEK 456m in continuous cost savings and SEK 637m as part of the Group-wide cost savings program. The program has been concluded and at the end of 2019, savings amounted to slightly above SEK 900m on an annualized basis. Continuous cost savings include savings in sourcing, production, material rationalization and restructuring measures within the Tissue Roadmap. The Tissue Roadmap is a plan to enhance efficiency in the supply chain in Consumer Tissue and Professional Hygiene.

Objectives, targets and outcomes

Generate increased shareholder value through profitable growth

Essity focuses on profitable growth in order to generate long-term value for our shareholders. The financial targets are to generate annual organic sales growth of above 3% and adjusted return on capital employed of above 15%.

Profitable growth
Our portfolio strategy provides clear priorities of the different categories and geographies for profitable growth. Price increases, improved product mix, higher volumes and cost savings contribute to growth and improved profitability.

Returns and dividends
Shareholder value is achieved through a positive share price trend and dividends. In line with Essity's dividend policy, we aim to provide long-term stable and rising dividends to our shareholders. When cash flow from current operations exceeds what the company can invest in profitable expansion over the long term, and under the condition that the capital structure target is met, the surplus shall be distributed to the shareholders. Read more about the Essity share on pages 6–8.

Capital structure
Essity's target is to have an effective capital structure at the same time that the long-term access to debt financing is ensured. Cash flow in relation to net debt is to take into account the target to maintain a solid investment grade rating.

	Target	Outcome 2019
Annual organic sales growth[1]	>3%	4.5%
Adjusted return on capital employed[2]	>15%	13.8%
Capital Structure Policy	Maintain a solid investment grade rating	Solid investment grade rating
Dividend Policy	Long-term stable and rising dividends	SEK 6.25 per share[3]

[1] Net sales excluding exchange rate effects, acquisitions and divestments. [2] Excluding items affecting comparability. [3] Board of Directors' dividend proposal.

Lotus® Baby Natural Touch with a new and even better fit. A diaper that is reliable, regardless of what a child can get up to.

Enable more people every day to enjoy a fuller life

Essity aims to enable more people every day to enjoy a fuller life by raising hygiene and health standards around the world. We will achieve this by providing access to sustainable and leading solutions and striving to break barriers surrounding hygiene and health that exist in our society. In 2019, Essity was again the convening partner for the UN Foundation's annual global dialogue to act together with others and make progress with regard to the UN Sustainable Development Goals.

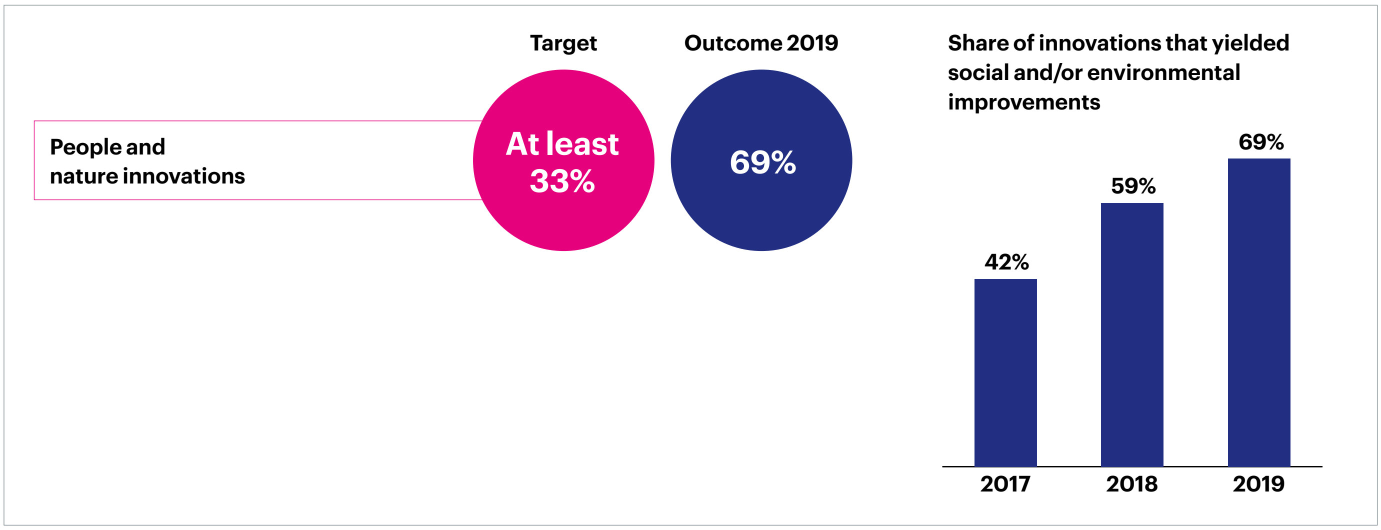
A fuller life

Our solutions enable people around the world to enjoy a fuller life. Compression socks and stockings from Medical Solutions, with our leading JOBST brand in compression therapy, help to combat tired, aching, restless legs and prevent swelling and pain.

Essity is working actively to break barriers and increase awareness surrounding hygiene and health, which includes providing education in matters relating to hygiene.

People and nature innovations

Essity is always striving to enhance its offering to customers and consumers. Moreover, we work to continuously improve resource efficiency and reduce our environmental impact by considering the whole life cycle for innovations. Essity's target is that at least 33% of our innovations will yield social and/or environmental improvements.



Read more about our targets and outcomes for 2019, 2018 and 2017 in non-financial notes on pages 114–121.

Our contribution to the UN Sustainable Development Goals

Goal 3 – Good health and well-being
By developing sustainable products and services for hygiene and health, Essity helps to prevent the spread of diseases and other health risks. This offers more people better conditions to participate in society, for example to study and provide for themselves, while increasing well-being.

Goal 5 – Gender equality
We want a society where everyone can fully participate. Through our products and services, our training courses and our collaborations, we are working to break the silence around issues such as menstruation and incontinence. Business value is also created by meeting societal needs. When we grow, we offer more people access to our leading hygiene and health solutions and help to improve well-being and gender equality.

Goal 6 – Clean water and sanitation
We work to achieve efficient water usage throughout the entire life cycle of our products and to improve water treatment and the quality of the effluent water discharged from our facilities. To contribute to good sanitation for everyone, we share our knowledge about hygiene and health and offer access to sustainable solutions that raise hygiene and health standards.

Contribute to a sustainable and circular society

Essity strives to reduce resource consumption and toward efficient recycling or composting of our hygiene and health products. As part of innovation activities, we develop offerings and business models to contribute to a sustainable and circular society, which also creates new business opportunities for Essity.

Sustainable and circular innovations
Essity's Tork PaperCircle®, the world's first recycling service for paper hand towels, is one example of a unique circular customer offering that a growing number of customers joined in 2019. In tissue production, Essity is investing in alternative fiber technology at the facility in Mannheim, Germany, to manufacture tissue based on alternative fibers from plant-based agricultural by-products.

Science Based Targets
Essity's targets for carbon emissions are approved by the Science Based Targets initiative, which means scientific methodology shows that our targets are in line with the global climate target set by the Paris Agreement concerning global warming. The target is linked to energy use and purchased electricity (Scope 1 and 2), and our indirect climate impact from material use, transportation and waste management, which includes emissions from suppliers and consumers (Scope 3).

Packaging, fiber sourcing and suppliers
Essity has set additional targets for packaging in 2019 and is aiming for 100% recyclability of our packaging. Our target for sourcing of fresh fiber means all wood-based fresh fiber in our products and packaging is to be FSC® or PEFC™ certified. All wood-based fresh fiber must fulfill the FSC Controlled Wood standard, as a minimum, to be eligible for purchasing. Essity's target for responsible sourcing is that 100% of all strategically important sourcing categories and sourcing from high-risk areas, which corresponds to 90% of Essity's total purchase cost, is to comply with Essity's Global Supplier Standard.

	Target	Outcome 2019
Science Based Targets Scope 1 and 2 Scope 3	2030 –25% –18%	 –5% –3%[1)]
Share of packaging manufactured from renewable or recycled material	2025 85%	68%
Water **Our sites are to** • Reduce levels of suspended solids • Reduce water usage • Reduce organic waste (BOD)	2020 –10%	 –26% –2% –29%
FSC® or PEFC™ certified fresh fiber	100%	79%
Production waste subject to material or energy recovery	2030 100%	63%
Sourced from suppliers who comply with Essity's Global Supplier Standard	2020 100%	85%

[1)] Outcome of Scope 3 is for 2018.

Read more about our targets and outcomes for 2019, 2018 and 2017 in non-financial notes on pages 114–121.

Our contribution to the UN Sustainable Development Goals

Goal 12 – Responsible consumption and production
Together with our customers, consumers, suppliers and other business partners, we are working toward a sustainable and circular society. Our innovation activities develop offerings that create value for our customers and consumers while we reduce the impact on the environment through smarter product designs and materials as well as greater resource efficiency in our production. We also strive to increase the use of renewable or recycled materials and to expand the recycling of our packaging and products.

Goal 13 – Climate action
We address the challenges of climate change through innovation and cooperation with others to reduce resource consumption and environmental impact. We have Group targets for the climate impact of our innovations, materials and production. Our targets to reduce carbon emissions have been approved by the Science Based Targets initiative and are in line with the ambition in the Paris agreement to reduce global warming.

Goal 15 – Life on land
We are a global purchaser of fresh fiber and communicate a clear commitment that all wood-based fresh fiber raw material should originate from responsibly managed forests. This means we require our fresh fiber suppliers to maintain and safeguard the principles of biodiversity and forest conservation. We prioritize FSC® as certification system and encourage all suppliers to strive for certification. This is part of our work to increase the percentage of certified and sustainable forest operations in the world.

Enable our employees to realize their full potential, as part of one winning team

Our employees are our main asset and we strive continuously to develop our corporate culture, expertise and leadership to create the best possible conditions for a successful Essity. We offer career opportunities in a leading global hygiene and health company that is breaking barriers to well-being in the world.

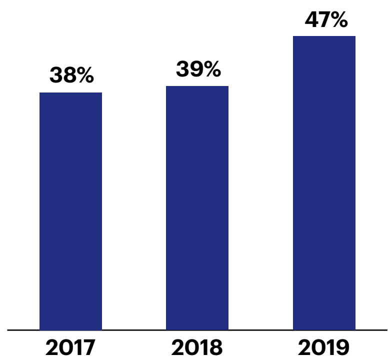
Health and safety
The health and safety of our employees is a top priority and our aim is for zero workplace accidents. Managers, employees and external partners receive training on a regular basis and all Essity facilities have plans in place to improve safety.

Continuous progress
Essity's success is determined by competent, dedicated and motivated employees who work together to achieve results. We strive to offer continuous learning and that employees take responsibility to pursue their own development. Learning at Essity takes place as a combination of new challenges, knowledge sharing and training programs.

Winning corporate culture
Essity's corporate culture is based on our "Beliefs & Behaviors": we are committed, we care, we collaborate, and we have courage. These express what is required of us all in order to develop Essity and are regularly followed up in employee surveys. Our "Beliefs & Behaviors" are supplemented by Essity's Code of Conduct. Employees receive training in the Code on how we conduct our business in a responsible manner, which benefits the company, society and the environment. Essity was named as Sweden's most attractive employer in 2019 by the recruitment and staffing agency Randstad. The award is a result of focused and global work involving corporate culture, leadership and competency issues.

	Target	Outcome 2019
Employee Health and Safety Decrease in accident frequency rate	2020 –50%	–47%
Business ethics and Code of Conduct Share of employees who received regular training in the Code of Conduct	100%	96%

Decrease in accident frequency rate



Read more about our targets and outcomes for 2019, 2018 and 2017 in non-financial notes on pages 114–121.

Personal Care

Offering

Essity's offering 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.

In Incontinence Products, with the globally leading brand TENA, Essity offers a broad range of incontinence products that also includes skincare products, wet wipes, wash gloves and digital solutions that include sensor technology. In Baby Care, Essity offers open baby diapers and pant diapers as well as baby care products such as wet wipes, shampoo, lotion and baby oil. In Europe, Essity offers baby diapers under its own Libero and Lotus brands and as retailer brands. In Feminine Care, Essity offers a broad product portfolio that includes pads, panty liners, tampons, intimate soaps and intimate wipes. In Medical Solutions, Essity offers products and services in wound care, compression therapy and orthopedics.

Distribution channels are the retail trade, pharmacies, medical device shops, hospitals, distributors and care institutions and online sales.

Market positions

Essity is the global market leader in the market for incontinence products with the TENA brand, holding a global market share that is about twice the size of the second largest player. Essity is the market leader in Europe, Asia (excluding Japan) and Latin America. Essity is the third largest player in Asia (including Japan) and the fourth largest in North America.

In Baby Care, Essity is the world's fifth largest player and the second largest in Europe. Essity's strongest market is the Nordic region, where the Libero brand is the market leader. Examples of other strong regional brands are Drypers in South East Asia and Pequeñin in South America.

In Feminine Care, Essity is the world's sixth largest player, the third largest in Europe and the market leader in Latin America. Examples of regional brands supported by Essity's global brand platform in Feminine Care include Libresse in the Nordic region, Russia, Eastern Europe, the Netherlands, Malaysia and China, Bodyform in the UK, Nana in France, the Middle East and North Africa, and Saba and Nosotras in Latin America.

In Medical Solutions, in the product categories in which the company is active, Essity is the world's fourth largest player and the market leader in Europe. Essity is the largest global player in compression therapy and the third largest player in

Leukoplast® – professional wound care for you. Accidents are part of life. Your wound care is in good hands with professional and high-quality dressings from Leukoplast.

orthopedics. In wound care, which includes acute and advanced wound care, Essity is the fifth largest player. Essity holds the number three position within acute wound care. Examples of strong brands include JOBST, Leukoplast, Cutimed, Delta-Cast and Actimove.

Production facilities
At the end of 2019, Personal Care had production at 36 sites in 24 countries.

Operations in 2019
Net sales increased 6.6% to SEK 48,340m (45,342). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.4%, of which volume accounted for 2.3% and price/mix for 1.1%. Organic net sales in mature markets increased 1.6%. In emerging markets, which accounted for 37% of net sales, organic net sales increased 7.0%. Acquisitions in Latin America increased net sales by 0.1%. Exchange rate effects increased net sales by 3.6%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 0.5%.

For Incontinence Products, with the globally leading TENA brand, organic net sales increased 5.0%. Growth was related to Western Europe, North America and emerging markets. In Medical Solutions, organic net sales increased 0.5%, mainly related to emerging markets and Western Europe. For Baby Care, organic net sales decreased 1.2% related to emerging markets. Organic net sales increased in Western Europe. For Feminine Care, organic net sales increased 9.4%, related to Latin America, Western Europe and Asia.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 6% (1% excluding currency translation effects, acquisitions and divestments) to SEK 6,746m (6,354). The increase was mainly related to higher prices, a better mix, higher volumes and cost savings. Higher raw material and energy costs negatively impacted profit by SEK –509m, which corresponds to a negative impact on the adjusted EBITA margin of –1.1 percentage points. The significantly higher raw material costs were mainly related to pulp and a negative currency transaction effect. Higher distribution costs also negatively impacted earnings. Investments to increase growth and costs for implementation of the Medical Device Regulation resulted in higher sales and marketing costs.

Net sales
48,340 SEKm

Organic net sales[1]
+3.4%

Adjusted EBITA[2]
6,746 SEKm

Adjusted EBITA margin[2]
14.0%

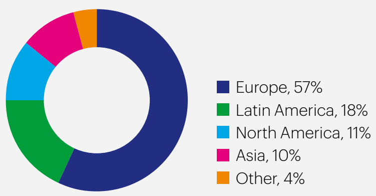
Adjusted return on capital employed[2]
15.2%

Emerging markets' share of business area's net sales
37%

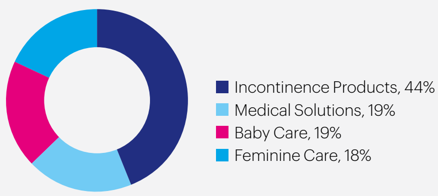
Organic net sales[1] in emerging markets
+7.0%

SEKm	2019	2018	%
Net sales	48,340	45,342	7
Organic net sales[1], %	+3.4%	+3.0%	
Adjusted EBITA[2]	6,746	6,354	6
Adjusted EBITA margin[2], %	14.0%	14.0%	
Adjusted return on capital employed[2], %	15.2%	15.3%	
Operating cash flow	6,495	5,006	30
Investments in non-current assets	–1,866	–2,134	
Average number of employees	17,167	18,328	

Net sales by region

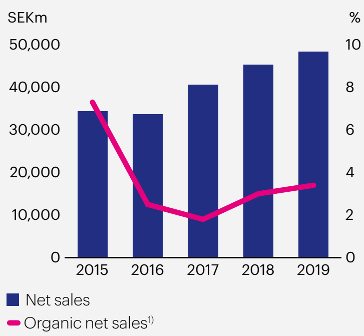


Net sales by product category

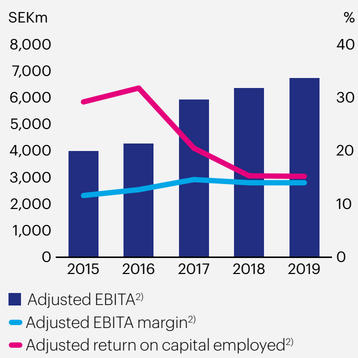


For Personal Care, 9% of total net sales were related to retailer brands. For Incontinence Products: 1%, Baby Care: 42%, Feminine Care: 6%, Medical Solutions: 0%.

Net sales



Earnings trend



[1] Excluding exchange rate effects, acquisitions and divestments.
[2] Excluding items affecting comparability.

Consumer Tissue

Offering
Essity's offering 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 are the retail trade and online sales.

Market positions
Essity is the world's second largest supplier of consumer tissue. Essity's brand portfolio comprises many strong brands.

In Europe, Essity is the market leader and holds a market share that is more than twice the size of the second largest player. Lotus, Tempo and Zewa are the leading brands in, for example, France, Germany and Russia. Cushelle, Velvet and Plenty are strong brands in the UK and Ireland, and Edet in the Nordic region and the Netherlands.

Essity is the market leader in China through its majority shareholding in Vinda. Vinda is the leading brand in China.

In Latin America, Essity is the market leader in Colombia and holds the number two position in Mexico. Familia and Regio are leading brands in Colombia and Mexico, respectively.

Production facilities
At the end of 2019, Consumer Tissue had production at 47 sites in 19 countries.

Operations in 2019
Net sales increased 10.6% to SEK 49,904m (45,125). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 6.1%, of which volume accounted for 2.9% and price/mix for 3.2%. Excluding lower sales of mother reels resulting from production closures within the scope of Tissue Roadmap, organic net sales increased 6.6%. Organic net sales increased 2.6% in mature markets. In emerging markets, which accounted for 47% of net sales, organic net sales increased by 10.7%. Acquisitions in Latin America increased net sales by 0.1%. Exchange rate effects increased net sales by 4.4%.

Lotus Just 1
One sheet is enough, thanks to the quality and thickness of the paper.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 60% (52% excluding currency translation effects and acquisitions) to SEK 5,321m (3,331). The increase was mainly due to higher prices, a better mix, higher volumes, lower raw material and energy costs, and cost savings. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs.

Net sales
49,904 SEKm

Organic net sales[1)]
+6.1%

Adjusted EBITA[2)]
5,321 SEKm

Adjusted EBITA margin[2)]
10.7%

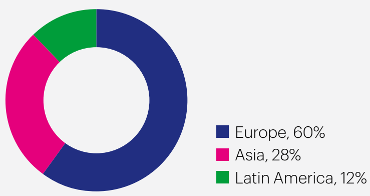
Adjusted return on capital employed[2)]
11.2%

Emerging markets' share of business area's net sales
47%

Organic net sales[1)] in emerging markets
+10.7%

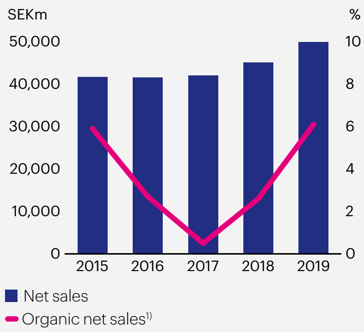
SEKm	2019	2018	%
Net sales	49,904	45,125	11
Organic net sales[1)], %	+6.1%	+2.6%	
Adjusted EBITA[2)]	5,321	3,331	60
Adjusted EBITA margin[2)], %	10.7	7.4	
Adjusted return on capital employed[2)], %	11.2	7.4	
Operating cash flow	4,870	2,388	104
Investments in non-current assets	–2,239	–3,074	
Average number of employees	21,526	21,235	

Net sales by region

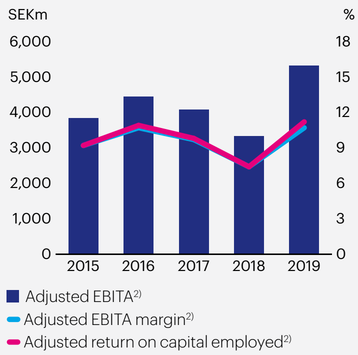


For Consumer Tissue, 33% of total net sales was related to retailer brands.

Net sales



Earnings trend



1) Excluding exchange rate effects, acquisitions and divestments.
2) Excluding items affecting comparability.

Professional Hygiene

Offering

Essity's offering 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 consist of distributors and online sales.

Market positions

Essity is the world's largest supplier of products and services in the market for professional hygiene with the globally leading Tork brand. We are the market leader in Europe and hold a market share that is more than twice the size of the second largest player. Essity is the second largest supplier in North America and holds a particularly strong market position in the food service segment, where we estimate that the company supplies approximately every second napkin. Essity also has strong positions in emerging markets, such as Russia and Colombia, where we are the market leader.

Production facilities

At the end of 2019, Professional Hygiene had production at 45 sites in 19 countries.

Operations in 2019

Net sales increased 9.7% to SEK 30,731m (28,017). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 3.6%, of which volume accounted for 1.5% and price/mix for 2.1%. Organic net sales increased 2.2% in mature markets. In emerging markets, which accounted for 20% of net sales, organic net sales increased 9.9%. Exchange rate effects increased net sales by 6.1%.

Tork Xpressnap Fit® is a new napkin dispenser system for restaurants and cafés that offers greater efficiency with its compact design and serves more guests between refills.

Essity is the leading global player in professional hygiene

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) increased 16% (10% excluding currency translation effects) to SEK 4,463m (3,841). Earnings were positively impacted by higher prices, a better mix, higher volumes, lower raw material costs and cost savings. Stock revaluations, due to lower raw material prices, had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs.

Net sales
30,731 SEKm

Organic net sales[1)]
+3.6%

Adjusted EBITA[2)]
4,463 SEKm

Adjusted EBITA margin[2)]
14.5%

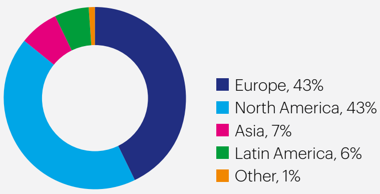
Adjusted return on capital employed[2)]
18.9%

Emerging markets' share of business area's net sales
20%

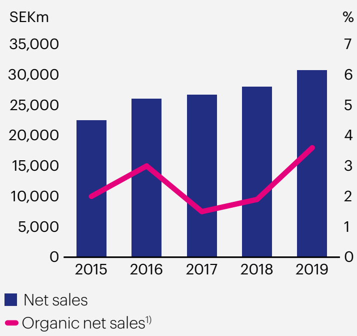
Organic net sales[1)] in emerging markets
+9.9%

SEKm	2019	2018	%
Net sales	30,731	28,017	10
Organic net sales[1)], %	+3.6%	+1.9%	
Adjusted EBITA[2)]	4,463	3,841	16
Adjusted EBITA margin[2)], %	14.5	13.7	
Adjusted return on capital employed[2)], %	18.9	18.1	
Operating cash flow	4,938	3,363	47
Investments in non-current assets	–1,402	–1,337	
Average number of employees	7,287	7,659	

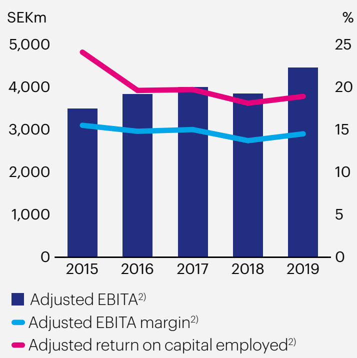
Net sales by region



Net sales



Earnings trend



1) Excluding exchange rate effects, acquisitions and divestments.
2) Excluding items affecting comparability.

Operations and structure

Essity reports its operations according to three business areas: Personal Care, Consumer Tissue and Professional Hygiene. Personal Care includes the Incontinence Products, Medical Solutions, Baby Care and Feminine Care product categories. Consumer Tissue includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Professional Hygiene includes complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap and dispensers.

Europe is Essity's largest market. The Group also holds strong positions in North America, Latin America and Asia. Expansion takes place through organic growth and acquisitions.

Organization

Essity has the following four business units:

- Consumer Goods, which offers consumer tissue, baby care and feminine care in Europe, the Middle East and Africa.
- Health and Medical Solutions, which offers incontinence products in Europe, North America, the Middle East and Africa and medical solutions in Asia, Europe, North America, the Middle East and Africa.
- Latin America, which offers consumer tissue, baby care, incontinence products, medical solutions, feminine care and professional hygiene in Latin America.
- Professional Hygiene, which offers professional hygiene in Europe, North America, the Middle East and Africa.

In addition to the business units, Essity has established three global units:

- Global Brand, Innovation and Sustainability has global responsibility for customer and consumer brands, innovation and sustainability and public affairs.
- Global Manufacturing has global responsibility for production and technology concerning all product categories with the exception of Medical Solutions.
- Global Operational Services has global responsibility for sourcing, logistics, business services, IT and digitalization.

The organization has four Group functions:

- Communications
- Finance
- Human Resources
- Legal Affairs

Essity exerts an influence on the Group company Vinda, a listed Asian hygiene company in which Essity is a majority shareholder, through board representation.

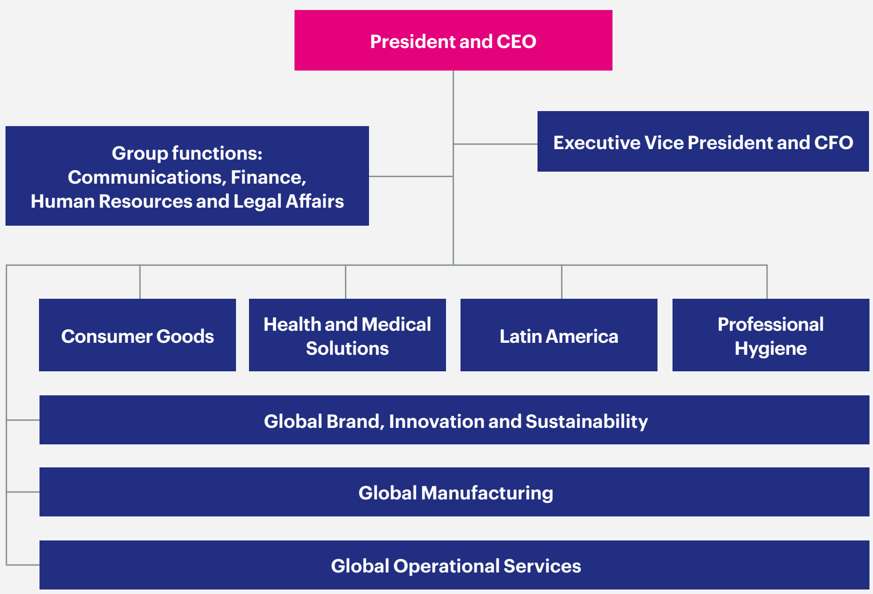
Events during the year

Essity took a decision to invest approximately SEK 400m in an integrated facility for the production of pulp based on alternative fibers from plant-based agricultural by-products.

Essity exited the Baby Care segment in Turkey through the divestment of its 50% share of the jointly owned company SCA Yildiz.

The Group-wide cost-savings program, which was launched in September 2018, has been concluded and at the end of 2019 savings amounted to slightly above SEK 900m on an annualized basis.

Organization



Acquisitions, investments and divestments

Divestment of jointly owned company in Turkey
In 2019, Essity divested its 50% stake in the jointly owned company SCA Yildiz in Turkey to the other part owner, Yildiz. SCA Yildiz is primarily active in Baby Care products. In 2018, the company reported net sales of SEK 364m (TRY 197m). The divestment resulted in a currency-related loss of approximately SEK 150m, which was recognized as an item affecting comparability in the third quarter of 2019. This did not affect cash flow or shareholders' equity. The transaction was finalized on July 12, 2019.

Essity will retain a presence in Turkey through the company's wholly owned Professional Hygiene, Incontinence Products and Medical Solutions operations.

Investments in sustainable alternative fiber technology
On May 23, 2019, Essity announced the company's decision to invest approximately SEK 400m in an integrated facility for the production of pulp based on alternative fiber from plant-based agricultural by-products. The investment is taking place at Essity's tissue production plant in Mannheim, Germany.

Other Group information

Parent Company
The Group's Parent Company, Essity Aktiebolag (publ), is a holding company with the main task of owning and managing shares in a number of business group companies and performing Group-wide management and administrative functions. The company's corporate registration number is 556325-5511 and it is domiciled in Stockholm, Sweden. The company's address is PO Box 200, SE-101 23 Stockholm. In 2019, the Parent Company recognized operating income of SEK 209m (192) and profit before appropriations and tax of SEK 4,098m (17,102). Investments in property, plant and equipment totaled SEK 14m (1) during the year. Cash and cash equivalents at year-end amounted to SEK 0m (0).

Research and development (R&D)
Research and development (R&D) costs during the year amounted to SEK –1,485m (–1,320), corresponding to about 1.2% of consolidated net sales. R&D is coordinated and conducted from a global perspective. Product development is carried out in close cooperation with the local units, as well as through direct collaboration with customers.

Holdings of treasury shares
Essity Aktiebolag (publ) holds no treasury shares.

Share distribution
In 2019, 58,129 Class A shares were converted into Class B shares. The proportion of Class A shares was 9.1% at year-end.

Dividend
The Board of Directors proposes an increase in the dividend of 9% to SEK 6.25 (5.75) per share or SEK 4,390m (4,038). The record date for entitlement to receive dividends is proposed as April 6, 2020. The Board is of the opinion that the company's and the Group's equity after the proposed dividend is sufficiently high in relation to the nature, scope and risks of the operations, solvency requirements, liquidity and financial position and provides scope for the company and the Group to fulfill its obligations and conduct desirable investments.

Sustainability report
Essity's statutory sustainability report, in accordance with the requirements of the Swedish Annual Accounts Act, can be found on pages 34–45 and 114–121 in the Board of Directors' Report. The company's business model can be found on pages 12–13. This sustainability report for Essity Aktiebolag (publ) encompasses the entire Group. More information on non-financial accounting principles can be found in Note H1, page 114.

Guidelines for remuneration of senior executives
Guidelines agreed by the most recent AGM and a description of the company's application of these can be found in Note C2 on pages 80–81.

Following changes to statutory requirements for the content of the guidelines, the Board has decided to propose the following new guidelines to the 2020 AGM concerning remuneration of senior executives in the Essity Group:

"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 per cent of annual fixed salary and the long-term element shall not exceed 50 per cent of annual fixed salary.

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

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

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

Pension and other benefits

Pension benefits shall be contribution-defined, and the annual premium shall not exceed 40 per cent 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. There shall be no severance pay.

Decision-making process and reporting

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

The Board shall prepare a remuneration report.

Application of, and deviation from, the guidelines

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

For more information about the company's application of applicable remuneration guidelines, see the note entitled "Remuneration of senior executives" in the company's Annual and Sustainability Report.

These guidelines shall apply commencing the 2020 Annual General Meeting until further notice."

For information on the company's calculated expenses for remuneration of senior executives, see Note C2 on pages 80–81.

Net sales and earnings

Net sales

Essity's net sales for 2019 increased 8.8% compared with the corresponding period a year ago to SEK 128,975m (118,500). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.5%, of which volume accounted for 2.3% and price/mix for 2.2%. Organic net sales increased 2.1% in mature markets and increased 9.1% in emerging markets. Emerging markets accounted for 37% of net sales. Exchange rate effects increased net sales by 4.4%. Acquisitions in Latin America increased net sales by 0.1%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 0.2%.

Earnings

Essity's adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA)[1] increased 22% (16% excluding currency translation effects, acquisitions and divestments) in 2019 to SEK 15,840m (12,935). Higher prices, a better product mix, higher volumes, cost savings and lower raw material costs had a positive impact on earnings. Cost savings amounted to SEK 1,093m, of which SEK 637m was related to the Group-wide cost-savings program. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs.

Items affecting comparability amounted to SEK –713m (–1,444) and include costs of SEK –409m related to restructuring costs for the Group-wide cost-savings program. The divestment of the 50% stake in the jointly owned company SCA Yildiz in Turkey resulted in a currency-related loss of SEK –149m that did not affect cash flow or shareholders' equity. Other costs negatively impacted items affecting comparability by SEK –155m.

Financial items increased to SEK –1,309m (–1,157). The increase is primarily related to higher interest and higher average net debt, mainly due to the new accounting standard for leases.

Adjusted profit before tax[1] increased 25% (19% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 13,753m (11,046).

The tax expense, excluding effects of items affecting comparability, was SEK 2,987m (1,490).

Adjusted profit for the period[1] increased 13% (7% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 10,766m (9,556).

Profit for the period increased 19% (13% excluding currency translation effects, acquisitions and divestments) to SEK 10,212m (8,552). Earnings per share were SEK 13.12 (11.23). The adjusted earnings per share[3] were SEK 14.69 (13.32). Profit for the period in 2018 was positively affected by a decision in a tax case in Sweden that reduced the tax cost by approximately SEK 1.1bn.

Key figures

The Group's adjusted gross margin[1] amounted to 29.5% (28.2) and the adjusted EBITA margin[1] was 12.3% (10.9). Adjusted return on capital employed[1] was 13.8% (12.0). Adjusted return on equity[1] was 18.4% (18.0). The interest coverage ratio increased to 11.0 (9.3).

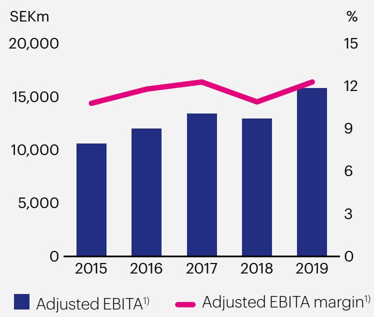
Summary income statement

SEKm	2019	2018	2017
Net sales	**128,975**	118,500	109,265
Adjusted EBITA[1]	**15,840**	12,935	13,405
EBITA	**15,127**	11,560	12,550
Adjusted operating profit[1]	**15,062**	12,203	12,845
Items affecting comparability	–713	–1,444	–940
Operating profit	**14,349**	10,759	11,905
Financial items	–1,309	–1,157	–1,182
Adjusted profit before tax[1]	**13,753**	11,046	11,663
Profit before tax	**13,040**	9,602	10,723
Adjusted tax[1,2]	–2,987	–1,490	–2,191
Tax[2]	–2,828	–1,050	–1,938
Adjusted profit for the period[1]	**10,766**	9,556	9,472
Profit for the period	**10,212**	8,552	8,785

1) Excluding items affecting comparability.
2) 2019: A revaluation of deferred tax reduced tax by SEK +253m. 2018: A decision in a tax case in Sweden reduced tax by approximately SEK +1.1bn. 2017: Includes positive tax effect of a non-recurring nature of approximately SEK +550m
3) Excluding items affecting comparability and amortization of acquisition-related intangible assets.

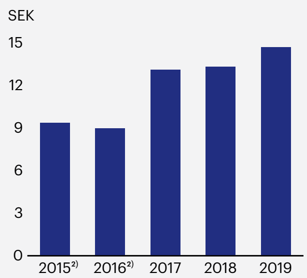
Net sales, share of Group

Adjusted EBITA[1] and adjusted EBITA margin[1]



1) Excluding items affecting comparability.

Adjusted earnings per share[1]



1) Excluding items affecting comparability and amortization of acquisition-related intangible assets.
2) Indicative earnings per share on the assumption that the number of issued shares in Essity as of December 31, 2016 and 2015 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).

Cash flow and financing

The operating cash surplus amounted to SEK 22,932m (18,570). The cash flow effect of changes in working capital was SEK 359m (–971). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK –5,707m (–6,781). Operating cash flow before investments in operating assets through leases amounted to SEK 16,090m (9,900). Investments in operating assets through leases amounted to SEK –451m (0). Operating cash flow was SEK 15,639m (9,900).

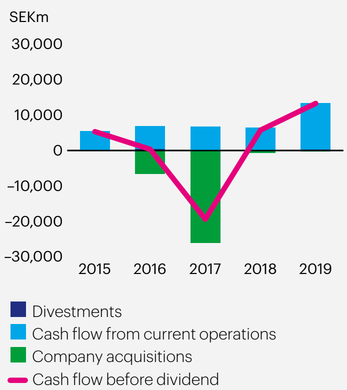
Financial items increased to SEK –1,309m (–1,157). The increase was mainly related to higher interest and higher average net debt, primarily due to a new accounting standard for leases. Income tax payments totaled SEK –1,130m (–2,466). A decision in a tax case in Sweden reduced the tax payment by approximately SEK 1.1bn.

The net sum of acquisitions and divestments was SEK 77m (–626). Dividends to shareholders impacted cash flow by SEK –4,374m (–4,435). Net cash flow totaled SEK 8,915m (1,307).

Net debt decreased by SEK 3,464m during the year and amounted to SEK 50,940m. Excluding pension liabilities, net debt amounted to SEK 47,915m. The new accounting standard for leases increased net debt by SEK 3,786m. Net cash flow reduced net debt by SEK 8,915m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, reduced net debt by SEK 487m. Exchange rate movements increased net debt by SEK 1,718m. Investments in non-operating assets through leases increased net debt by SEK 434m.

The debt/equity ratio was 0.81 (0.99). Excluding pension liabilities, the debt/equity ratio was 0.76 (0.92). The debt payment capacity was 38% (25). Net debt in relation to adjusted EBITDA amounted to 2.25 (2.96).

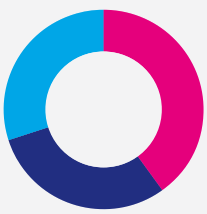
The Group's cash flow



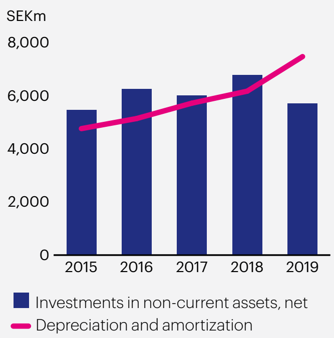
Operating cash flow statement

SEKm	2019	2018	2017
Operating cash surplus	22,932	18,570	18,465
Change in working capital	359	–971	–740
Investments in non-current assets, net	–5,707	–6,781	–6,012
Restructuring costs, etc.	–1,494	–918	–1,091
Operating cash flow before investments in operating assets through leases	**16,090**	**9,900**	**10,622**
Investments in operating assets through leases	–451	0	0
Operating cash flow	**15,639**	**9,900**	**10,622**
Financial items	–1,309	–1,157	–1,182
Income taxes paid	–1,130	–2,466	–2,971
Other	8	86	175
Cash flow from current operations	**13,208**	**6,363**	**6,644**
Company acquisitions	–143	–694	–26,045
Divestments	220	68	29
Cash flow before dividend	**13,285**	5,737	–19,372
Private placement to non-controlling interests	4	5	28
Dividend to non-controlling interests	–336	–397	–285
Dividend	–4,038	–4,038	0
Transactions with shareholders	0	0	838
Net cash flow	**8,915**	**1,307**	**–18,791**

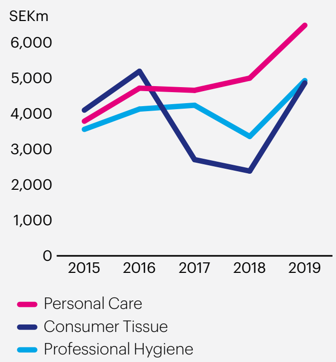
Operating cash flow, share of Group



Investments in non-current assets



Operating cash flow by business area



Financial position

Assets and capital employed
The Group's total assets increased 5% compared with the preceding year, amounting to SEK 162,295m (154,266). Non-current assets increased SEK 8,193m compared with the preceding year to SEK 120,314m (112,121), of which property, plant and equipment amounted to SEK 56,900m (51,673) and intangible assets to SEK 55,763m (55,028). Investments in non-current assets, net, amounted to SEK 5,707m. Total depreciation and amortization for the year was SEK 7,477m, of which amortization of acquisition-related intangible assets amounted to SEK 778m.

Current assets totaled SEK 41,981m (42,145). Working capital amounted to SEK 6,782m (7,568). Capital employed was 4% higher and totaled SEK 113,741m (109,303). The distribution of capital employed per currency is shown in the table below.

Equity
The Group's equity increased by SEK 7,902m during the period, to SEK 62,801m (54,899). Net profit for the period increased equity by SEK 10,212m. Dividends to shareholders of SEK 4,374m reduced equity. Equity increased net after tax by SEK 536m as a result of fair value measurement of pension assets and updated assumptions and assessments that affect the valuation of the pension liability. Fair value measurement of financial instruments reduced equity by SEK 447m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 1,954m. Other items increased equity by SEK 21m.

Financing
The Group's interest-bearing gross debt amounted to SEK 48,191m (54,326) at year-end. The maturity period was 3.1 (3.5) years.

During the year, net debt decreased year-on-year by SEK 3,464m and amounted to SEK 50,940m. Excluding pension liabilities, net debt amounted to SEK 47,915m. The new accounting standard for leases increased net debt by SEK 3,786m. Net cash flow reduced net debt by SEK 8,915m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, reduced net debt by SEK 487m. Exchange rate movements increased net debt by SEK 1,718m. Investments in non-operating assets through leases increased net debt by SEK 434m.

Key figures
The debt/equity ratio was 0.81 (0.99). Excluding pension liabilities, the debt/equity ratio was 0.76 (0.92). The visible equity/assets ratio was 33% (31). Adjusted return on capital employed and equity was 13.8% (12.0) and 18.4% (18.0) respectively. The capital turnover rate was 1.1 (1.1).

At year-end, working capital amounted to 5% (6) of net sales.

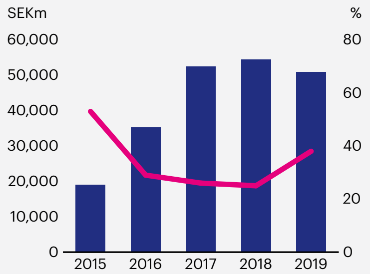
Consolidated capital employed by currency, SEKm

	2019	%	2018	%	2017	%
EUR	43,985	39	43,678	40	40,937	40
USD	20,173	18	20,304	19	18,020	18
CNY	17,376	15	16,865	15	15,550	15
MXN	6,570	6	5,505	5	4,621	5
GBP	5,432	5	5,325	5	5,119	5
Other	20,205	17	17,626	16	17,790	17
Total	**113,741**	**100**	109,303	100	102,037	100

Consolidated balance sheet

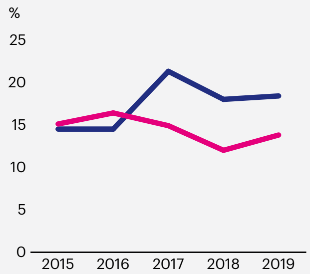
SEKm	2019	2018	2017
Intangible assets	55,763	55,028	53,121
Property, plant and equipment	56,900	51,673	48,482
Other non-current assets	7,651	5,420	5,495
Total non-current assets	**120,314**	112,121	107,098
Current assets	41,981	42,145	39,918
Total assets	**162,295**	154,266	147,016
Equity	62,801	54,899	49,570
Non-current liabilities	56,214	57,795	60,828
Current liabilities	43,280	41,572	36,618
Total equity and liabilities	**162,295**	154,266	147,016
Working capital	6,782	7,568	5,901
Capital employed	113,741	109,303	102,037
Net debt	50,940	54,404	52,467

Net debt and debt payment capacity



Net debt
Debt payment capacity, %

Adjusted return on capital employed and equity[1]



Adjusted return on capital employed[1]
Adjusted return on equity[1]
[1] Excluding items affecting comparability.

Capital employed, share of Group

Personal Care, 39%
Consumer Tissue, 41%
Professional Hygiene, 20%

Risks and risk management

Essity is an international group with sales in approximately 150 countries and manufacturing at about 90 production facilities in some 30 countries. The geographic structure means that operations are conducted in countries and in markets with different cultures and varying degrees of maturity. Essity is exposed to a number of strategic, operational and financial risks, which could exert a negative impact on the Group's operations. Accordingly, it is of major importance that the company has a systematic and effective process to efficiently identify, manage and mitigate the effects of these risks.

Processes for risk management

The responsibility for the management of risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to each Business Unit President. The delegation scheme involves risks being managed primarily by Essity's business units, but with central coordination and follow-up. The latter is mainly achieved through the business units' continuous reporting and in the annual strategy process. Risk identification and risk management are a key part of the latter. The risks are analyzed based on how these impact Essity's opportunities to achieve established targets. Identified risks are classified according to the likelihood of these becoming a reality and the potential impact each risk could have on the Group. This process also includes specifying who is responsible for managing the risk, and measures for how risks shall be mitigated and followed up. Responsibility and follow-up for a number of risks is centralized at a global level.

Essity's financial risk management is centralized. The Group's internal bank handles the Group's financial risks and energy risks. The financial risks are managed in accordance with the Group's finance policy, which is decided by Essity's Board of Directors. Together with Essity's energy risk policy, the finance policy constitutes a framework for financial risk management. The risks are compiled and continuously monitored. Responsibility for insurable operational risks is managed by the Vice President Group Risk Management & Insurance. Risks in ethics, human rights and other sustainability risks as well as information security are aggregated and monitored on a regular basis at Group level.

Essity has a corporate internal audit unit, which follows up that Essity's organization complies with the set policies.

Based on current knowledge, the following are deemed to be the main factors that risk materially negatively impacting the operations:

Risks that impact Essity's ability to achieve established targets

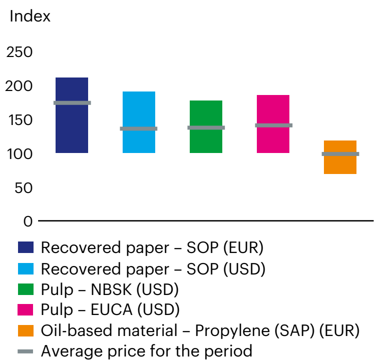
Risk	Action
GDP trend and economic conditions	
Demand for Essity's products is affected by general macroeconomic fluctuations and the resulting changes to customer purchasing power and consumption patterns. For example, a tighter budget situation in the public sector or among business customers influences sales in the healthcare sector and business-to-business, respectively. Sales to the retail sector, which accounts for the bulk of sales of hygiene products, may also be affected by reduced purchasing power among consumers.	Essity continuously works to manage the effect of cyclical fluctuations that arise, for example, through measures to reduce costs, increase efficiency and to create higher customer value through product innovations. Essity also works on differentiation to move toward product areas that are less sensitive to economic fluctuations.

Risk	Action	
Environmental impact and climate change		
Essity's operations and the products used in the manufacturing process have an impact on air, water and land. Essity is subject to extensive environmental regulations in all of the countries where the company conducts operations. More stringent environmental requirements, remediation of the environment in connection with plant closures or breaches of permits could incur higher costs for the Group. Risks related to climate change and the financial implications of such change, for example, increased production costs and investment requirements, have attracted increased attention. Not least as a result of the 2015 Paris Agreement and new guidelines from the TCFD (Task Force on Climate-related Financial Disclosure).	Essity's strategic framework and sustainability policy stipulate guidelines for the Group's measures within the environmental area. Environmental impact and the impact of climate change are part of the annual strategy process, which includes the identification, assessment and actions for managing these types of risks. Risks are managed, for example, through preventive work in the form of certified environmental management systems, environmental risk inspections in conjunction with acquisitions, and remediation projects in connection with plant closures. The use of energy, water, transport, production waste and raw materials is controlled using the company's Resource Management System (RMS), which was updated in 2019. The system also enables the simulation of investments on the basis of climate aspects. The data is used for internal control and follow-up of established targets. Essity also works to reduce the volume of production waste.	Essity has adopted the SBTi[1]-approved Science Based Targets to reduce the company's climate impact and to support the 2015 Paris Agreement. Through clear governance and responsibility for climate targets within Essity's management team, climate impact is also a clear part of the company's business strategies and financial planning. Essity works to reduce carbon emissions by, for example, making investments in renewable energy and energy-saving programs. In addition, Essity has adopted targets relating to packaging, which are part of Essity's commitment to the Ellen MacArthur Foundation's plastics initiative. The targets aim to increase the proportion of renewable or recycled material in the company's packaging. [1] SBTi: Science Based Targets initiative.
Political decisions and regulatory measures		
Essity conducts operations in a large number of different countries. In some countries, the institutional structures are more established and developed, while the political, financial, legal and regulatory systems in others are less predictable. In both cases, political changes and decisions, as well as amended legislation and regulations could have a negative impact on Essity's operations in the form of higher costs or some other obstruction. In general, the regulatory requirements imposed on Essity's operations, products and services are intensifying.	Essity works continuously to monitor, evaluate and anticipate changes in its business environment in the form of political decisions and amended regulations in the areas that are of importance for our operations. Essity participates in various national and international industry organizations, as well as in other types of partnerships. The aim is to gain early knowledge, and also to contribute actively to the development of areas where we have expertise and that are significant to our operations. Such areas include environmental and energy issues, where the circular economy, use of resources and more specifically, issues relating to waste, plastics, chemicals, and emissions to water and air can be considered of particular importance for Essity. The public sector is both a significant customer and an important stakeholder group for Essity. The	company is therefore working actively on matters relating to health and medical care, as well as care for the elderly. By complying with and contributing to the development of relevant regulations, Essity shares its experience garnered from existing systems to decision-makers in countries where new structures are being built or existing systems reformed. An example of this is the development of systems for subsidized prescription of incontinence aids in countries where such benefits were not offered in the past. Similarly, Essity monitors developments in regulations covering medical solutions.
Competition		
Essity is subject to considerable competition from other producers of similar products. Essity is also exposed to the risk that alternative products and solutions with the same or similar function (substitutes) could replace the products included in Essity's range. Substitutes exist for virtually all Essity products. This may involve such products as cloth diapers or cloth rags for household or industrial cleaning, or completely different solutions to meet the needs of consumers, such as menstrual cups or electric hand dryers. Competition and the occurrence of substitutes presents the risk of a negative effect on sales and pricing of Essity's products and jeopardizes the company's market position.	Essity's focus on customer and consumer insight guides its innovation activities, ensuring that new products and services are competitive. Essity develops the company's offering to meet the needs of customers and consumers in terms of the products themselves, but also in providing these in the relevant sales channels. New solutions are developed through the company's own research and development activities in cooperation with customers, consumers, suppliers or partners. Through its processes for monitoring the business environment, Essity follows up on new players and substitutes in the market and their impact on the company. Read more about innovation on page 16.	

Risk	Action
Dependence on major customers and sales channels	
Essity's success is attributable to its ability to offer attractive products, services and brands and to make these available to customers and consumers. Essity's products are sold through retailers, pharmacies, online sales, distributors and resellers, with retail representing the single largest customer category. If these players are not successful in selling Essity's products, this could have a negative impact on Essity's earnings. In general, there is a consolidation trend in several of Essity's sales channels and markets – particularly in the retail trade – through mergers and purchasing alliances, which could increase dependence on individual, large customers. Digitalization is also changing customer and consumer behavior, preferences and demand.	Essity's customer structure is relatively dispersed, with customers in many different geographies and areas of business. In 2019, Essity's ten largest customers, most of them retail companies and distributors, accounted for 23.7% of net sales. The company works to maintain strong long-term customer relationships in strategic customer segments, as well as building relationships with new customers. Essity is participating by continuously increasing its online sales and also by aligning to the new and changing purchasing and consumption patterns. Essity also places great importance on developing processes, products and information to ensure customer satisfaction.
Production facilities	
Essity has around 90 production facilities in some 30 countries. Fires, machinery breakdowns and other types of harmful incidents in plants could lead to considerable value destruction, loss of production and income, which ultimately, could have a negative impact on Essity's market position.	From this perspective, the aim of Essity's risk management is to protect its employees, the environment, the company's assets and the business properly and in a cost-efficient manner. Essity strives to create and maintain a balance between loss-prevention activities and insurance coverage. The loss-prevention work is conducted in accordance with established guidelines that include repeated inspections carried out by external risk engineers. Other important elements of loss-prevention activities are maintenance of production plants and machinery, staff training, and good orderliness. Essity invests continuously in loss-prevention activities to reduce its risk of damage in various ways. For example, the sites are usually protected by sprinkler systems. All wholly owned facilities are insured at replacement cost and for the loss of income. Within the EU, insurance is primarily conducted within the company's own insurance company, with external reinsurance for major damages. Outside the EU, Essity cooperates with market-leading insurance companies.
Unethical business practices	
Essity works in a large number of countries and in environments where unethical business practices and violations of human rights may occur. The risk of such business methods is deemed to be very serious. The financial consequences of violations may be very severe in the form of various sanctions and fines. Violations also risk having a negative impact on the company's reputation in the market.	Essity has a program for regulatory compliance, which aims to minimize the risk of Essity taking part in or being associated with unlawful or unethical business practices or commits violations of human rights. The program is based on a Code of Conduct adopted by the Board of Directors. The Code contains policies for how the company and its employees are to conduct themselves in the workplace, in the community and in the market. Essity's employees are routinely trained in the Code of Conduct. Within certain areas – corruption and competition regulations – Essity has an in-depth program for risk evaluation and various training courses for employees. The implementation of the regulatory compliance program is reported continuously to the Compliance Council, which includes parts of the Essity management and where internal audit has an opportunity to take part in work.
Employees	
To meet its targets, Essity is dependent on being able to recruit, retain and develop qualified and motivated employees.	Essity ensures access to employees with relevant competence through strategic staffing and succession planning. Essity is focusing on making the company known as an attractive employer in the markets in which it operates. Internal recruitment and rotation is facilitated through a "Job Portal", where vacant positions are advertised internally and externally. The company's ambition is for all employees to have a personal development plan focused on both skills development and new challenges. Essity strives to ensure that salaries and other benefits are market-based and competitive in the labor market where the employee works. Essity works actively to build good relationships with union organizations.

Risk	Action
Legal risks	
Legal risks comprise a number of risks in, to some extent, diverse areas. Amended legislation, violations of laws in the operations or errors in any agreements signed by Essity, are some examples of legal risks that could have negative financial implications for Essity. In certain instances, they may also result in protracted and costly legal processes.	Essity constantly monitors developments in a number of areas and addresses any legal risks that arise in cooperation with external advisers. Legal issues are often national by nature, which means that local experts are also often engaged by Essity in various issues.
Suppliers	
Essity is dependent on a large number of suppliers. The unplanned or sudden loss of key suppliers could result in increased costs and disruptions to the company's production. Suppliers could also cause problems for Essity through non-compliance with applicable legislation and guidelines or by otherwise acting in an unethical manner.	Essity enters into supply contracts of various durations with a large number of different suppliers. These agreements ensure the supply of key input goods. The Group has several suppliers for essentially all important input goods. In-depth collaboration also occurs with specially selected suppliers in the development of materials and processes. Essity continuously evaluates its suppliers to ensure compliance with agreements entered into. Particular importance is placed on suppliers operating in countries and industries deemed to be more vulnerable to risks. The assessment of key suppliers may take the form of a questionnaire, on-site visit or independent audit.
Information and IT	
Essity relies on IT systems for its operations. Disruptions or faults in critical systems risk having a direct impact on production and other important business processes. Errors in financial systems risk affecting the company's reporting of results.	Essity has a management model for IT that contains governance, standardized IT processes and an organization for information security. The latter works with continuous risk assessment, preventive measures and the use of security technologies. Standardized procedures are in place for implementing and changing systems and IT services, as well as for daily operations.
Cost of input goods	
Input goods account for a considerable part of Essity's total operating expenses. The market price of input goods fluctuates over time and could influence Essity's earnings positively or negatively. The price trend for a number of input goods over the past ten years is presented in the diagram below.	Fiber (pulp and recovered paper) is a significant cost item, mainly in Consumer Tissue and Professional Hygiene. Price fluctuations for fiber are managed primarily through long-term relationships with suppliers and by optimizing purchases from different regions and of varying qualities. The cost of oil-based materials is driven by the trend in oil prices and represents a major cost item in Personal Care and for various packaging materials. The trend in oil prices also impacts transport costs. The impact of price movements on input goods can be delayed through purchasing agreements with fixed durations. Efficiency improvements in the company's operations, altered product specifications and price increases are examples of measures to dampen the effect of rising costs for input goods. Essity's costs for input goods are described on page 130.

Highest/lowest market prices (annual average) 2009–2019 per product



Risk	Action

Energy price

Risk

Energy price risk is the risk that increased energy prices could adversely impact Essity's operating profit. Essity is exposed to movements in the prices of electricity and natural gas, but the prices of other energy commodities also directly and indirectly impact Essity's operating profit.

Action

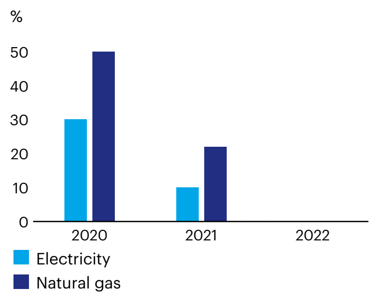
Essity centrally manages the energy price risk related to electricity and natural gas. According to Essity's energy risk policy, these price risks can be hedged for a period of up to 36 months. Exceptions are made for regulated and non-hedgeable markets. Energy prices are hedged through financial instruments and fixed pricing in existing supply contracts.

Essity safeguards the supply of electricity and natural gas through centrally negotiated supply contracts. The portfolio of supply agreements and financial hedges is effectively spread to minimize Essity's counterparty risk.

In 2019, Essity purchased about 5 TWh (5; 5) of electricity and about 8 TWh (8; 8) of natural gas.

The graph shows Essity's price hedges in relation to forecast consumption of electricity and natural gas for the next three years. The graph includes financial hedges and hedging effected via supply contracts. For further information concerning financial price hedges, see Note E6 Derivatives and hedge accounting on page 93.

Energy price hedges in relation to forecast consumption, December 31, 2019



Currency

Risk

Transaction exposure
Transaction exposure is the risk that exchange rate movements in export revenues as well as import expenses and other costs could negatively impact the Group's operating profit and the cost of non-current assets.

Translation exposure
Translation exposure is the risk to which Essity is exposed when translating foreign Group companies' balance sheets and income statements to SEK.

Long-term currency sensitivity
The table below presents a breakdown of the Group's net sales and operating expenses by currency, which provides an overview of the Group's long-term currency sensitivity. The largest exposures are denominated in EUR, USD, CNY and GBP.

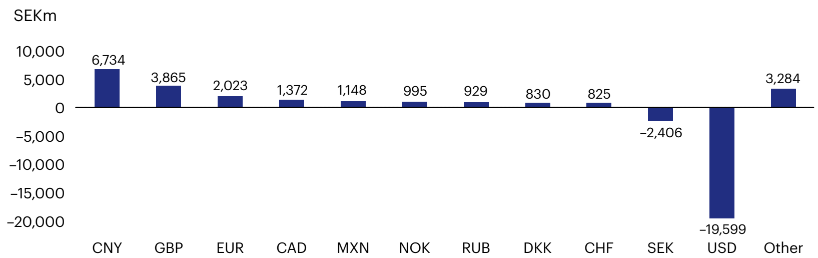
Currency	Sales %	Costs %	Adjusted EBITA[1] SEKm	Average rate 2019
EUR	38	34	9,975	10.5781
USD	15	30	–14,747	9.4483
CNY	11	6	7,673	1.3684
GBP	7	4	5,052	12.0571
MXN	5	4	2,199	0.4908
COP	3	3	389	0.0029
RUB	3	2	892	0.1461
SEK	2	4	–1,656	
Other	16	13	6,063	
Total	**100**	**100**	**15,840**	

[1] Excluding items affecting comparability.

Action

Transaction exposure
Most of Essity's business is conducted outside Sweden and transaction exposure therefore arises primarily in currencies other than SEK. The largest exposure comprises a purchase requirement for USD and selling requirements for CNY and GBP. The significant USD exposure is a consequence of the Group's purchase of pulp that is invoiced in USD. Transaction exposure, resulting from exports and imports, can be hedged for a period of up to 18 months. Contracted future payments for non-current assets in foreign currencies can be hedged up to the full cost. The currencies with the greatest net volume were hedged as follows: USD 0.8 month, CNY 0 month, GBP 0.8 month. During the year, there was continuous hedging of, primarily, trade receivables and payables, as well as future payments of non-current assets. The majority of hedges mature during the first quarter of 2020. For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting on page 93.

Net flows in 2019



Translation exposure
Essity manages translation exposure by distributing the liability across the various currencies where the Group owns assets so that key figures that are important for the company's credit rating are protected in the long term against exchange rate effects. Translation exposure in the income statements of foreign Group companies is not currency-hedged. As at December 31, 2019, net debt amounted to SEK 50,940m (54,404; 52,467). Distribution by currency is shown in the table to the right.

For further information relating to hedging of translation exposure, see Note E6 Derivatives and hedge accounting on page 93.

Net debt distributed by currency

		Percentage of net debt		
Currency	Net debt SEKm	2019 %	2018 %	2017 %
EUR	21,278	42	46	46
SEK	9,827	19	11	19
GBP	7,172	14	15	6
USD	5,053	10	13	15
CNY	2,767	5	7	8
MXN	2,423	5	4	3
HKD	1,812	4	3	2
Other	608	1	1	1
	50,940	**100**	**100**	**100**

Risk	Action

Credit

Risk

Credit risk refers to the risk of losses due to a failure by Essity's customers, or counterparties in financial agreements, to meet payment obligations.

Action

Credit risk in trade receivables
Credit risk in trade receivables is managed through credit checks of customers using credit rating companies. The credit limit is set and regularly monitored. Trade receivables are recognized at the amount that is expected to be paid based on an assessment of the anticipated credit losses for the remaining lifetime of all trade receivables at the balance sheet date. For further information concerning trade receivables and recognition of anticipated credit losses, see Note E3 Trade receivables on page 91.

Financial credit risk
The objective is that counterparties must have a minimum credit rating of A–/A3 from at least two of the rating institutes Standard & Poor's, Fitch and Moody's.

Essity strives to enter into agreements that allow net calculation of receivables and liabilities. In certain cases, there are also supplementary terms to these agreements regarding the exchange of collateral.

Credit exposure in derivative instruments is calculated as the market value of the instrument on the balance sheet date. Credit exposure in derivative instruments amounted to SEK 971m (1,255; 1,555), gross. Taking net calculation agreements per counterparty into consideration, credit exposure of derivatives amounted to SEK 551m (810; 1,084). At year-end, the total credit exposure was SEK 3,750m (4,028; 4,964). This exposure includes credit risk of SEK 2,928m (3,081; 4,107) for cash and cash equivalents. Refer to the table below for the distribution of credit risk by category.

Financial credit exposure

	Category[1]			
SEKm	**A**	**B**	**C**	**Total**
Financial assets measured at fair value through other comprehensive income			96	96
Financial assets measured at amortized cost	119		56	175
Cash and cash equivalents	2,395	128	405	2,928
Derivate assets, net	551			551
Total	**3,065**	**128**	**557**	**3,750**

[1] A: Investment grade, a long-term credit rating from one or more of the institutes of at least: Moody's (Baa3), Standard & Poor's (BBB–) and Fitch (BBB–)
B: Non-investment grade, a long-term credit rating lower than: Moody's (Baa3), Standard & Poor's (BBB–) and Fitch (BBB–)
C: No credit rating (mainly assets that lack a separate credit rating and cash and cash equivalents in regulated markets)

Liquidity and refinancing

Risk

Liquidity and refinancing risk is the risk that Essity is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising new loans.

Action

To ensure good access to loan financing, regardless of the economy and on attractive terms, Essity strives to maintain a solid investment grade rating. Essity is to maintain financial flexibility in the form of a liquidity reserve consisting of cash and cash equivalents and unutilized credit facilities totaling at least 10% of the Group's forecast annual sales. Essity limits its refinancing risk by having a solid distribution in the maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, taking unutilized credit facilities that are not liquidity reserves into account. Surplus liquidity should primarily be used to amortize external liabilities. Essity's policy is to not agree to terms that entitle the lender to withdraw loans or adjust interest rates as a direct consequence of movements in Essity's financial measures or credit rating.

The Group's financing is mainly secured by bank loans, bond issues and through issuance of commercial papers. The refinancing risk in short-term borrowing is limited through long-term credit facilities from bank syndicates and individual banks with favorable creditworthiness.

Essity's net debt decreased by SEK 3,464m in 2019. At year-end, the average maturity of gross debt was 3.1 years (3.5; 4.3). If short-term loans were replaced with long-term unutilized credit facilities, the maturity would amount to 3.6 years. Unutilized credit facilities amounted to SEK 20,850m at year-end. In addition, cash and cash equivalents totaled SEK 2,928m. For further information, see Note E2 Financial assets, cash and cash equivalents on page 91, and Note E4 Financial liabilities on page 92.

Liquidity reserve

SEKm	**2019**	**2018**	**2017**
Unutilized credit facilities	20,850	20,554	19,680
Cash and cash equivalents	2,928	3,008	4,107
Total	**23,778**	**23,562**	**23,787**

SEKm	**2019**	**2018**	**2017**
Net sales	128,975	118,500	109,265
Liquidity reserve[1]	18%	20%	22%

[1] Liquidity reserve as a percentage of net sales.

Interest rate

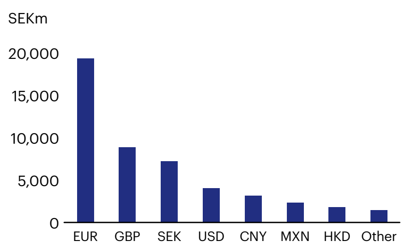
Risk

Interest rate risk relates to the risk that changes to interest rates could have a negative impact on Essity. Essity is affected by interest rate movements through financial income and expenses, cash flow and the value of its financial assets and liabilities.

Action

Essity strives to achieve a solid distribution of its interest maturity dates to avoid large debt volumes of renewals occurring at the same time. Essity's policy states that the average interest duration shall be a minimum of 3 months and a maximum of 36 months. Essity's financial items increased in 2019. The increase was primarily related to higher interest and higher average net debt, mainly due to the new accounting standard for leases. Essity's largest funding currencies are EUR, GBP and SEK, refer to the graph on the right. To achieve the desired interest duration, Essity uses financial derivatives. The average interest duration for the gross debt, including derivatives, was 24.7 months (26.7; 30.1) at year-end. The average interest rate for the total outstanding net debt including derivatives, amounted to 2.11% (2.55; 1.83) at year-end.

Gross debt distributed by currency



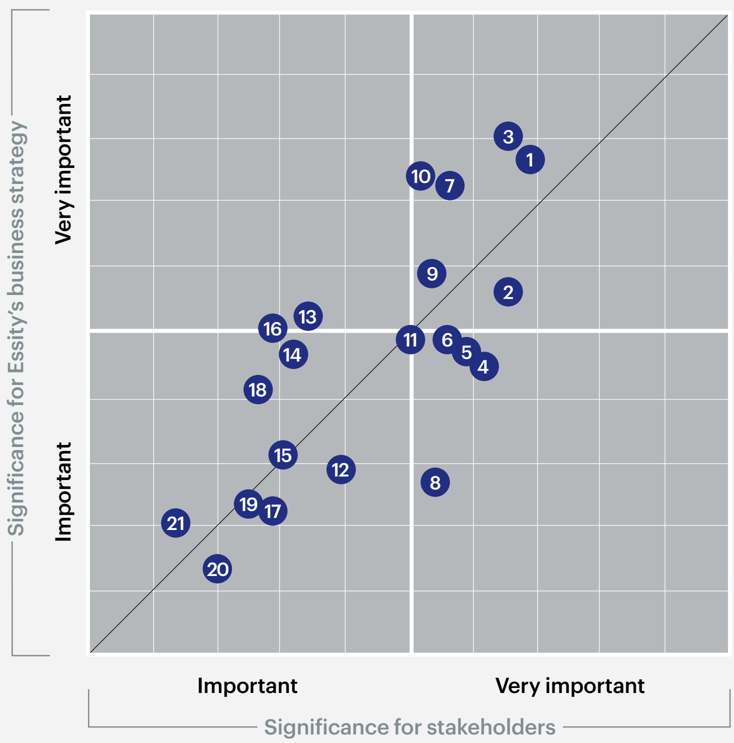
Materiality analysis

Essity conducts a materiality analysis among its stakeholders every other year. The analysis provides insight into the subject areas they consider to be significant. These then form the basis of the company's strategy. Interest in such topics as climate change, waste/circularity and plastics increased during the year, which is shown in the analysis. These topped the list, together with innovation and business ethics, which remain the topics that the stakeholders find to be most important.

This year's web-based materiality analysis yielded approximately 900 responses from customers, consumers, suppliers, investors, analysts, media representatives, community representatives, decision-makers and employees. The respondents were able to select the ten topics they considered most important for Essity. The stakeholders' prioritization of these topics were grouped together with responses from Essity's senior management, whose priorities correspond to the company's business strategy. The results are presented in the graph below. The X axis shows the responses from all stakeholders except Essity's senior management, whose responses are shown on the Y axis. The responses from the stakeholder groups were weighted to provide an accurate view of the results. The topics are numbered according to how high they were ranked in the survey. There is also a reference to where you can find more information in this year's Annual and Sustainability Report.

The selection of subject areas to be included in the materiality analysis was guided by employees from different parts of the company. This was done so that the selected areas would be relevant regardless of who responded to the survey. Various frameworks and policy documents such as the Global Reporting Initiative, the UN Global Compact and Essity's Code of Conduct also formed the basis for the selected areas. The survey covered 21 topics, all of which are important to Essity. Most were kept unchanged from previous years so as to facilitate analysis and comparison over time. A number of the subjects were reformulated to cover a larger area. A few of them are new. A comprehensive account of all topics in the survey can be found at www.essity.com/sustainability.

Essity's materiality analysis



The stakeholders' ranking of the subject areas

		Read more on pages
1	Innovation	16, 43, 115
2	Climate change	4–5, 35, 44, 117
3	Business ethics	36, 42, 115
4	Waste/circularity and plastics	35, 43, 115, 119
5	Transparency	127–128
6	Safe products	43
7	Customer and consumer satisfaction	15, 115
8	Water	19, 35, 44, 118
9	Health, well-being and equality	21, 43, 45, 120–121
10	Human capital	21, 45, 120
11	Human rights	36, 42, 114
12	Fiber sourcing	44, 116
13	Brands	16, 22–27
14	Corporate governance	46–55
15	Efficient supply chain	17, 43–44, 116
16	Market positions	10–11
17	Risk management	34–39
18	Digitalization	9, 12, 14
19	Distribution and accessibility	14–15, 44, 119
20	Tax	78–79
21	Cyber and information security	37

Sustainability governance

Sustainability has long been integrated into all of Essity's functions and at all levels of operations. Essity's sustainability governance model is the same as for the Group's corporate governance. As a result, sustainability issues are discussed at all of the company's Board meetings, among the Executive Management Team and in the various business units and global units.

The purpose of Essity's sustainability governance is to ensure the Group's commitments to its stakeholder groups, including customers, consumers, employees, shareholders, suppliers, creditors, decision-makers and representatives of the community. The company's commitments are expressed in the strategic framework, in objectives and in strategies. To ensure that the company's priorities and methods are relevant over time, Essity maintains an active and continuous dialogue with its stakeholders.

Essity's objective is to generate maximum economic value and at the same time, live up to social and environmental expectations. Economic strength and stability is a prerequisite for social responsibility and environmental investments that generate long-term financial growth. Essity has established a number of policies and management systems to achieve and maintain the company's economic value creation with respect to social and environmental value creation. To reach Essity's value creation targets, the Executive Management Team has established a number of sustainability targets that are monitored and reported annually.

Essity's overall management approach to social value creation is intended both to assess how the company impacts and interacts with people through its operations and to develop strategies for establishing positive relationships with relevant stakeholders.

Essity's Code of Conduct is the main steering document concerning social responsibility. This defines areas where the company can successfully contribute to socially sustainable development in the Group's operations, and for various stakeholders along the value chain. In the markets where Essity operates, social values are generated for individuals and society through the company's products and services for hygiene and health. In addition, the company creates jobs and pays the right tax and fees in the countries where the company operates.

Essity's overall environmental management approach is to enhance the operations' positive contribution to the environment, while minimizing negative environmental impact. A number of committees and networks operate in the Group's different business units to guarantee a consistent approach. Read more about this at www.essity.com/sustainability.

Summary of strategic components of Essity's sustainability governance

Adopted by: ● Board of Directors ■ CEO ▲ Other level

Strategic components	Generate increased **shareholder** value through profitable growth	Enable more **people** every day to enjoy a fuller life	Contribute to a sustainable and circular **society**	Enable our **employees** to realize their full potential, as part of one winning team
Policies (and guidelines)	● Code of Conduct ● Sustainability Policy ● Anti-bribery and Corruption Policy ● Tax Policy	● Code of Conduct ● Sustainability Policy ● Anti-bribery and Corruption Policy ■ Community Relations Instruction ▲ Global Supplier Standard	● Code of Conduct ● Sustainability Policy ■ Fiber Sourcing Policy ▲ Global Supplier Standard	● Code of Conduct ● Sustainability Policy ● Anti-bribery and Corruption Policy ● Compensation Policy ▲ Health and Safety Instruction ▲ Diversity Policy
Targets and KPIs	• Financial targets • People and nature innovations	• Innovations with social improvements • The number of countries where Essity is number 1 or 2 in at least one product category	• Climate and energy – Science Based Targets • Suppliers in compliance with the Global Supplier Standard • Fiber Sourcing • Production waste • Water • Packaging • Innovations with environmental improvements	• Employee Health and Safety • Code of Conduct
Management systems, programs and certifications	• Innovation process • International Financial Reporting Standards (IFRS) • Life cycle management	• Innovation process • Sedex • Life cycle management • ISO 9001 • OHSAS 18001	• Innovation process • ESAVE (energy) • MSAVE (material) • Chain of Custody certification, FSC and PEFC • ISO 9001, ISO 14001, ISO 50001 • Life cycle assessment (LCA) based on the ISO 14040 series • Greenhouse Gas Protocol • SMETA • IMO 2020 regulation	• Global system for performance review and development planning • Essity's Leadership Platform • OHSAS 18001
External charters or initiatives	• UN SDGs • UN Global Compact • OECD Guidelines for Multinational Enterprises	• UN SDGs • UN Global Compact • OECD Guidelines for Multinational Enterprises • UN Guiding Principles on Business and Human Rights	• UN SDGs • UN Global Compact • OECD Guidelines for Multinational Enterprises • Science Based Targets initiative • Ellen MacArthur Foundation	• UN SDGs • UN Global Compact • OECD Guidelines for Multinational Enterprises • UN Guiding Principles on Business and Human Rights • ILO Core Conventions

Regulatory frameworks and assurance

External regulations and internal steering documents
Essity monitors the development of and ensures compliance with social, environmental and financial legislation that is relevant to its sustainability governance. Essity has developed a position in the form of position papers in which the company states its views in several areas. The position papers are available at www.essity.com/sustainability.

Code of Conduct
Essity's Code of Conduct is the Group's steering document for responsible business operations. All of the Group's employees are subject to the Code of Conduct, which is based on such international standards as the UN Declaration of Human Rights, the ILO Core Conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact Principles and related legislation. Systematic activities, such as risk analyses, regular training, audits and other monitoring processes are in place to ensure compliance with the Code. Essity also uses the Supplier Ethical Data Exchange (Sedex) tool to make risk assessments of the company's own production units. Sedex is a global database in which companies share information about their production units with their customers. The information concerns working conditions, the environment and business ethics as well as health and safety.

All employees are regularly trained in the Code of Conduct. The Code of Conduct is included in all onboarding programs across the company. Essity expects its joint-venture companies to implement a Code of Conduct and guidelines equivalent to those stipulated in Essity's Code of Conduct.

Essity has a program for compliance with competition rules. The program includes risk analysis, e-learning, guidelines and recurring training sessions. The training program is mandatory for employees who encounter these issues during the course of their work.

Reporting violations of the Code of Conduct
Essity offers its employees a number of internal channels to report violations of legislation or the Code of Conduct. All Essity employees have the opportunity to use a whistleblower system managed by an external party. Where permitted by law, there is the possibility of reporting breaches anonymously. Essity's Compliance & Ethics department receives all incoming reports from the whistleblower system. Reports are presented to Essity's Compliance Council, whose chair is the company's General Counsel. The Committee also monitors Essity's Code of Conduct. Read more about work in 2019 with the Code of Conduct and with anti-corruption efforts in Note H2 on pages 114-115.

Human rights
Essity's commitment to human rights is based in the company's Code of Conduct. Essity's approach for ensuring respect for human rights in conjunction with the company's operations is built on the UN Guiding Principles on Business and Human Rights (UNGP). In accordance with this framework, due diligence audits are conducted regarding the management of the company's impact on human rights. Essity conducts regular Group-wide and local risk assessments to evaluate the risks and effects on human rights.

Anti-corruption
Essity's Code of Conduct, as well as its Anti-bribery and Corruption Policy, represent the most important steering documents in the area of anti-corruption. An evaluation and risk assessment of the company's anti-corruption program is conducted regularly. The program includes third-party reviews of suppliers and distributors. An anti-corruption e-learning course is part of Essity's onboarding program. The course is compulsory for employees in particularly vulnerable positions such as sales and purchasing, who also undergo special training tailored for their activities.

Compliance and monitoring
Essity's Compliance & Ethics department is responsible for the anti-corruption program and for the Code of Conduct training program.

Essity's internal audit unit monitors compliance with the Code of Conduct through audits. The operations to be audited are determined by such factors as a country's social and environmental risks, and indications of non-compliance with Essity's policies or information from Essity's management teams. The content of the audits emanates from Essity's Code of Conduct. The methods are based on the SA8000 standard. The audits are conducted by cross-disciplinary teams from Essity, and include representatives from the Internal Audit, Human Resources and Sourcing functions. The audits involve a review of documentation, inspection of the facility with a focus on health and safety, and interviews with managers, employees and union representatives. Every audit results in a report and action plan, which are followed up. The results of the audits are reported to Essity's Board via the Audit Committee.

Essity's business practice audits are conducted by the Internal Audit unit. The audits focus on business ethics and Essity's relationships with customers, suppliers and authorities and one important element is the type of management culture among managers. The content of the audits is based on Essity's Code of Conduct. Interviews are conducted with managers and employees to ensure the effectiveness of the control environment and challenges in the local environment.

Assurance
In addition to Essity being reviewed by external auditors, its operations are subject to external reviews, for example, in connection with life cycle assessments. Essity's own control systems include segregation of duties in critical processes and defined management responsibilities with regard to internal control. In addition to this, Essity has a separate internal audit function that continuously works to evaluate and improve the effectiveness of governance processes, risk management and internal reporting. The unit contributes to the maintenance of high standards of business ethics and is involved in the monitoring of Code of Conduct compliance, including through audits. To support its work, the internal audit unit has a number of steering documents and policies.

Enable more people every day to enjoy a fuller life
Essity is to deliver better, safe and socially and environmentally sound products and services to its customers. Innovation activities are based on the insight into customers' and consumers' needs, social and environmental criteria and on the foundation of Essity's three sustainability platforms: well-being, more from less, and circularity. It is essential that Essity optimizes existing and new products, packaging and services during and after use to reduce consumption and waste. Read more on www.essity.com/sustainability and in Note H3 on page 115.

Essity complies with all prevailing laws and regulations for the company's products. The company follows strict requirements and procedures to ensure that all materials in the company's products are safe for consumers, customers, employees and the environment. Essity has global guidelines in place for all products to ensure that they are safe for their intended purpose. Product safety requirements are a key component of Essity's Global Supplier Standard, and the company works closely with its suppliers to ensure these are met.

Essity has a system for handling feedback from customers and consumers. Feedback and complaints provide valuable customer and consumer insights. The knowledge gathered is transferred to the organization. Essity always investigates whether there is cause for action beyond the individual case and compensates dissatisfied customers where relevant. Read more about work in 2019 with customers and consumers in Note H4 on page 115.

Role in society and community relations
Essity works to routinely monitor, evaluate and anticipate changes in the business environment in the form of political decisions, general guidelines and amended regulations in the areas that are of particular importance for the operations. Essity is part of national and international industry organizations and other partnerships. The intent is to, at an early stage, obtain knowledge and actively promote development of areas that have an impact on Essity and where the company possesses valuable knowledge.

Essity strives to be a dedicated partner in the local communities wherever it conducts operation. In accordance with Essity's Community Relations Instruction, the company prioritizes initiatives with a clear link to the company's operations, expertise, culture and geographic presence. Read more about Essity's role in society and community relations at www.essity.com/sustainability and in Note H5 on page 115.

Contribute to a sustainable and circular society
Essity's objective is to develop products and services for a sustainable and circular society. This is achieved by reducing consumption in use, developing products with smarter design and quality material and by continually optimizing resource efficiency along the value chain. Read more about Essity's packaging targets in Note H6 on page 115.

Essity follows a life cycle approach at every stage of the value chain to encompass the social, environmental and societal impact of the company's products, packaging and services. This makes it possible to meet customers' needs and exceed their expectations. The company promotes life cycle thinking in its sourcing, production, development of innovations and after use.

A life cycle assessment (LCA) shows the total environmental impact of a product from the use of raw materials, product development, production and use, to the waste phase. This is based on the ISO 14040 and 14044 standards as well as product-specific regulations for tissue products and Personal Care products. For each activity in the life cycle, an LCA estimates the impact from raw materials, energy and transportation as well as emissions. Life cycle assessments conducted by Essity cover the main categories that describe the potential impact on the environment, meaning the product's carbon footprint, acidification of rivers and lakes, and eutrophication of land or water systems.

Responsible sourcing involves seeking high-quality raw materials that are safe from both a social and environmental perspective. The company's suppliers adhere to strict demands in Essity's Global Supplier Standard.

Resource-efficient production focuses on efficient use of resources and on reducing energy consumption and waste. Only chemicals that meet Essity's stringent safety requirements are used. Their potential impact on employees, customers, consumers and the environment is evaluated continuously. The production units apply management systems, such as ISO 9001, ISO 14001 and OHSAS 18001.

Supply chain management
Essity employs a systematic approach to manage potential risks in its supply chain. By purchasing from suppliers who meet the requirements established in its Global Supplier Standard, Essity will routinely promote responsible business operations and respect for human rights in the company's supply chain. The Global Supplier Standard contains requirements concerning quality, product safety, the environment and chemicals. It also contains a Code of Conduct for Suppliers that covers Essity's expectations as regards human rights (for example, child labor and forced labor) and employee relations as well as health and safety. Moreover, Essity requires its suppliers to conduct self-evaluations on labor standards, the environment, business ethics as well as health and safety through the Sedex database. The responses are used both in risk assessments when evaluating potential suppliers and in the routine risk assessment of suppliers of purchased materials, products and services.

Purchases from suppliers in countries classified as high risk under the Maplecroft Human Rights Index are audited specifically with a focus on parameters such as human rights and employment conditions. An ethical audit can also be triggered by other indicators such as a low rating in Sedex or a low score in Essity's supplier audit. The preferred audit format is SMETA, which is the most popular method in the world for social and ethical audits. Other audit methods are accepted if they meet Essity's requirements.

Certain materials and goods – for example, conflict minerals, cotton and wood fiber that Essity purchases – are deemed to have the greatest risks before they reach Essity's direct suppliers. Consequently, risk assessment must be carried out lower down in the supplier chain. Read more about work in 2019 with suppliers in Note H7 on page 116.

Conflict minerals and cotton
Essity requires documented Chain of Custody from suppliers of products that may contain potential conflict minerals. This mainly applies to paper dispensers for public bathrooms with electronic components containing metals whose origins are to be reported using the Conflict Minerals

Reporting Template (CMRT) from the Responsible Minerals Initiative.

Some of Essity's products contain cotton fiber, and Essity requires the cotton to be produced sustainably taking fair working conditions and the environment into account. Essity is a member of the Better Cotton Initiative, the world's largest sustainability program for cotton. Essity prefers this program, but other programs can also be accepted.

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 either in accordance with the Forest Stewardship Council (FSC®) or the Programme for the Endorsement of Forest Certification (PEFC™). The target includes all deliveries of wood-based fresh fiber, meaning timber, pulp, packaging, mother reels and finished products supplied by external parties to Essity's own production sites.

All fiber material containing wood-based fresh fiber must be accompanied by an FSC Controlled Wood Chain of Custody certification regardless of whether the material is PEFC certified or certified by a forest certification other than FSC.

Essity has a global sourcing policy for wood-based fresh fiber in place and a shared business system for the assessment, purchase and traceability of fiber in compliance with Essity's targets for purchasing fiber.

Essity requires wood-based fresh fiber suppliers to guarantee that they have robust systems and documented procedures in place to ensure traceability and compliance throughout the supply chain. When needed, Essity will support all new suppliers in their transition to third-party certification. Essity also conducts its own audits of suppliers' systems and sometimes employs external parties to produce reports or perform additional surveys of suppliers. The audits are based on Essity's Global Supplier Standard. Read more about the company's fiber purchasing in 2019 in Note H8 on page 116.

Climate and energy
Essity has adopted Science Based Targets for the reduction of greenhouse gas emissions. Approved by the Science Based Targets initiative, these targets encompass energy, electricity, suppliers, transportation and waste. The Science Based Targets initiative helps companies determine which emission reductions they need to achieve to decrease the global temperature rise, as agreed by the countries of the world at the 2015 UN climate change conference (COP 21) in Paris.

ESAVE is an Essity program that comprises investments in energy efficiency. This engages employees in daily improvement activities for energy use at Essity. The company also cooperates with external stakeholders such as machinery suppliers to ensure energy efficiency, continuous improvements and compliance of new equipment with future requirements. Essity also has a material savings program, MSAVE, using the same philosophy, methodology and exchange of experience as ESAVE. The program aims to achieve cost efficiency while minimizing the environmental impact from raw materials and reduced waste. Read more about work in 2019 with energy and emissions to air as well as the company's Science Based Targets in Note H9 on pages 117-118.

Water
Essity strives to reduce water use and works continuously to enhance its water treatment and thus the quality of the effluent water discharged from its plants. Mechanical treatment removes suspended solids, sand and particles, while biological treatment removes dissolved solids and organic impurities that affect biological oxygen demand (BOD) and chemical oxygen demand (COD). Read more about work in 2019 with water in Note H10 on page 118.

Waste management
Waste management of products is a common responsibility for Essity and its customers and consumers. Tissue products comprise renewable fibers that contribute to renewable energy through combustion. Thanks to their biodegradability, they are well suited to composting and digestions. Compostability is based on tests under existing composting standards to ensure that all requirements are met. Essity is also working to develop the recycling of paper hand towels.

For Essity's products in the Personal Care business area, energy recovery through combustion is a good alternative to landfill. There are currently no infrastructure or established business models for collecting and recycling used products. Essity is working actively on investigating new waste management alternatives. Read more about work in 2019 with waste in Note H11 on page 119.

Distribution and transportation
Essity works continually to reduce emissions and the environmental impact of transportation. The implementation of the Group-wide Transport Management System is the driver behind efficiency enhancements in transportation. This results in increased fill ratio, optimized routes and a choice of means of transportation with a smaller environmental impact. Essity is continuously reviewing its distribution network in order to reduce transport distances and routes driven with empty loads. By optimizing the use of trucks and containers, Essity will reduce the number of transportation runs from plants to ports. Essity is also working to maximize the use of pallets and to use larger trailers to further improve loading volumes and reduce the number of transportation runs.

Maritime transportation is used primarily to transport pulp fiber, and Essity routinely monitors shipping companies to ensure that they comply with applicable environmental standards. The company works actively to use low sulfur fuel, which will become mandatory with the new IMO 2020 ordinance. For transportation between suppliers, plants and warehouses, Essity prioritizes emission-efficient methods of transport such as barges, rail transportation and transportation providers who combine different methods of transportation. Read more about Essity's work in 2019 with transport in Note H12 on page 119.

Enable our employees to realize their full potential, as part of one winning team

At Essity, all employees are to be treated with respect and offered an opportunity to develop in their career. The company values, and works continually for, increased diversity. All employees are recruited, evaluated and promoted based on objective criteria without negative discrimination with regard to gender, marital status, origin, sexual orientation, religious faith, political affiliation, age, disability or other categories protected by law.

Essity's global human resource strategy aims to secure long-term capabilities and ensure that Essity is a safe and healthy workplace based on ethical business practices and is perceived as a great place to work. Essity recruits and develops employees in line with its strategic competence plan. The plan is based on Essity's strategy, demographics, and access to expertise and determines which measures the company needs to implement to meet future requirements for expertise and resources.

The ambition is that all employees are to have an individual development plan that is defined and followed up during annual performance reviews. The reviews identify the capabilities necessary for employees to achieve stated targets. The employees and managers agree on the manner in which these skills should be secured, primarily through internal development opportunities. Essity works proactively with employee health and well-being that addresses both the physical and social work environment. Employee commitment and satisfaction are regularly measured through a global employee survey. This is followed by systematic work to identify and implement measures.

Essity offers its employees development opportunities and remuneration based on market rates comprising salary, variable remuneration, pension and other benefits. The company follows local remuneration structures, provided they do not conflict with internationally established rules for minimum wages and reasonable compensation. The company works continually to narrow and prevent unjustified pay gaps and differences in other employment conditions. The variable remuneration programs (STI and LTI) target, in addition to the Executive Management Team and senior management, other key positions.

The company endeavors to provide its employees with efficient and flexible opportunities to perform their duties. Through its working from home policy, Essity leverages modern technology and new working methods that allow employees, whenever necessary, to perform their duties outside their usual workplace. Essity faces new challenges in some markets with an aging workforce, since absence related to musculoskeletal disorders increases with age. Essity has created a workplace program containing technical improvements and attitude changes to create a more ergonomic work environment.

Transparent communication is fundamental to the trust between Essity and its employees, as well as their representatives. Essity recognizes the right of each employee to join unions and to partake in union activities. The company meets with employee organizations at various levels on a regular basis to inform them of and discuss issues concerning the Group's performance and earnings, as well as health and safety and employment terms and conditions. Essity also has an agreement with IndustriALL, the industry union. The aim is to communicate changes well ahead of time. When there is no union representation, Essity establishes other channels where possible, such as partnership councils.

In connection with organizational changes, Essity works to support the employees affected. This is done through discussions with labor unions at an early stage and by preparing a social action plan that is adjusted to local conditions. The plan normally includes assistance in seeking other employment and/or education, opportunities for early retirement or other financial incentives.

Essity supports Global Deal. This is a global partnership with members in the private and public sector, whose aim is to improve the dialogue between parties in the labor market and national governments to improve employment conditions and productivity. Employee data for 2019 is in Note H13 on page 120.

Health and safety

Essity's work on health and safety for its employees is based on compliance with the company's Code of Conduct and responsible business operations. Essity's aim is zero workplace accidents and it works continually to improve the work environment, which provides employees with the possibility of a sustainable work life. Health and safety for employees is a top priority. The well-being of our employees is a prerequisite if they are to reach their full potential. Essity's strategy for healthy workplaces integrates physical, mental and social health. The capacity of the workplace to manage health issues through reactive, preventive and proactive initiatives is measured using the company's self-evaluation tool. Essity implements the international OHSAS 18001 (Occupational Health and Safety Assessment Series) standard to ensure that uniform processes are deployed across the Group, and that Essity units routinely improve their workplace health and safety. OHSAS specifies requirements for an organization's occupational health and safety management systems.

Essity has a Group Health and Safety Instruction and a governance system for risk assessment and training as well as setting and monitoring targets. All incidents – those that resulted in an accident and those that could have – are reported, analyzed and followed up so that they do not happen again. This means the company has good opportunities for performing risk assessments, continually monitoring performance and working proactively. Read more about work in 2019 on health and safety in Note H14 on page 121.

Corporate governance

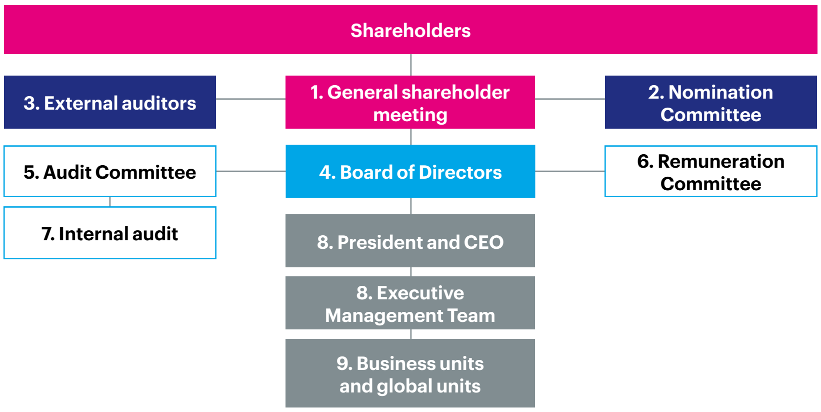
The task of corporate governance is to ensure the company's commitments to all of its stakeholders: shareholders, customers, suppliers, creditors, society and employees. It must be structured in a way that supports the company's long-term strategy, market presence and competitiveness. Corporate governance shall be reliable, clear, simple and business-oriented. This Corporate Governance Report forms part of the Board of Directors' Report for Essity's 2019 Annual Report. The report has been reviewed by the company's auditors.

Corporate governance, including remuneration, pages 46–55.
This section describes applicable regulatory rules and regulations for the Group's corporate governance and the company's management structure and organization. It details the Board of Directors' responsibilities and its work during the year. Information regarding remuneration and remuneration issues and Essity's internal control are also included here. Essity applies the Swedish Code of Corporate Governance without any deviations (www.corporategovernanceboard.se).

Risk management, pages 34–39
Essity's processes to identify and manage risks are part of the Group's strategy work and are pursued at a local and Group-wide level. The section dealing with risk management describes the most significant risks and procedures used to eliminate or limit these risks.

Sustainability
Essity's sustainability work is an integral part of the company's business model. The company's sustainability report forms part of the Board of Directors' Report. The sustainability work helps reduce risks and costs, strengthen competitiveness, attract new employees and investors, and contributes toward a more sustainable world.

Governance at Essity



1. General shareholder meeting
The general shareholder meeting is Essity's highest decision-making body, which all of the company's shareholders are entitled to attend, to have a matter considered and to vote for all shares held by the shareholder. The company's Board of Directors and auditor are elected at the Annual General Meeting (AGM). The AGM also resolves on the remuneration of the Board members and determines guidelines for the remuneration of senior executives. Essity has two listed classes of shares: Class A and Class B shares. Every Class A share represents ten votes while every Class B share represents one vote. There are no other restrictions relating to voting rights in respect of shares used by shareholders at the general shareholders meeting. Essity holds no treasury shares.

2. Nomination Committee
Shareholders appoint members of the Nomination Committee at the AGM, or stipulate how the members shall be appointed. The Nomination Committee represents the company's shareholders. A majority of the members shall be independent of the company and corporate management. The President and other members of corporate management may not be a member of the Nomination Committee. The main duty of the Nomination Committee is to prepare and present proposals for the AGM's resolutions with respect to election and remuneration matters.

3. External auditors
The company's auditor is elected at the Annual General Meeting and is responsible for reviewing Essity's annual report and consolidated financial statements and the Board's and President's administration. The auditor submits an audit report from this review.

The audit is performed in accordance with the Swedish Companies Act, International Standards on Auditing (ISA) and generally accepted auditing principles in Sweden.

4. Board of Directors
The Board of Directors has overall responsibility for the Company's organization and administration. This responsibility is fulfilled, inter alia, through regular monitoring of the business and by ensuring the appropriateness of the organization, including the management team, and by issuing guidelines and reporting from internal control. The Board approves strategies and targets, and decides on major investments, acquisitions and divestments of operations, among other matters.

The Board of Directors comprises nine members elected by the shareholders at the 2019 AGM. According to the Articles of Association, the Board of Directors is to consist of not less than three and not more than twelve members elected by the AGM. The Board of Directors also includes three employee representatives with deputies, who are appointed by the respective employee organizations under Swedish law.

Essity's Articles of Association contain no provisions regarding appointment or dismissal of Board members or amendments to the Articles. The general shareholder meeting has not delegated to the Board to resolve to issue new shares or to repurchase own shares.

Chairman of the Board
The Chairman of the Board leads the work of the Board and is responsible for ensuring that it is effectively organized and that work is efficiently conducted. This includes continuous monitoring by the Chairman of the company's operations in close dialogue with the President and ensuring that other Board members receive information and decision data that will enable high-quality discussion and decisions by the Board. The Chairman leads the assessment of the Board's and the President's work. The Chairman also represents the company in ownership matters.

5. Audit Committee
The role of the Audit Committee is to monitor the company's financial reporting and provide recommendations and proposals to ensure the reliability of reporting. With regard to the financial reporting, the Committee overseas the effectiveness of the company's internal control, internal audit and risk management. The Audit Committee keeps itself continuously informed about the audit of the annual report and consolidated financial statements and where applicable about the conclusions of the quality control by the Swedish Inspectorate of Auditors concerning the company's external auditor. The Committee receives and addresses the supplementary report to the audit report concerning the conducted audit that the auditor submits in accordance with the EU Audit Regulation. The Audit Committee informs the Board of its observations and the results of the audit. The Audit Committee also examines and monitors the impartiality and independence of the auditor. In respect to this, particular attention is paid to whether the auditor is providing the company with services other than auditing services. The Committee also assesses the work of the auditor and provides proposals to the company's Nomination Committee concerning the appointment of auditor for the following mandate period.

Members of the Audit Committee are not employed by the company and at least one member has accounting or auditing expertise.

6. Remuneration Committee
The Remuneration Committee drafts the Board's motions on issues relating to remuneration principles, remuneration and other terms and conditions of employment for the President and is authorized to make decisions in these matters for the company's other senior executives. The Committee monitors and assesses programs for variable remuneration, the application of the AGM's resolution on guidelines for remuneration of senior executives and the applicable remuneration structure and remuneration levels in the Group.

7. Internal audit
The internal audit assists the Group in improving and protecting the organization's value through a risk-based, independent and objective assurance and consultancy services. The internal audit reports to the Audit Committee and the Board in relation to internal audit issues. The internal auditors are geographically located throughout the world where Essity conducts operations. The internal audit examines, among other aspects, Essity's internal processes for sales, sourcing, financial reporting, IT systems, information security, HR issues, sustainability, various types of projects and compliance with Essity's internal rules, including the company's Code of Conduct. The internal audit also provides investigations and consultancy services in connection with internal control matters and risk management.

8. President and Executive Management Team
Essity's President and CEO is responsible for and manages the day-to-day administration of the Group and follows the Board's guidelines and instructions. The President and CEO is supported by the Executive Management Team, see pages 54–55, the work of which is led by the President. The Executive Management Team comprises the President, four Group Function Senior Vice Presidents, four Business Unit Presidents and the Presidents of the three global units. The working procedures for the Board of Directors and terms of reference issued by the Board of Directors to the President detail, for example, the division of work between the Board and President. In consultation with the Chairman and Secretary of the Board, the President prepares documentation and decision data for the Board's work.

9. Business units and global units:
Business units:
- Consumer Goods, which offers consumer tissue, baby care and feminine care in Europe, the Middle East and Africa.
- Health and Medical Solutions, which offers incontinence products in Europe, North America, the Middle East and Africa and medical solutions in Asia, Europe, North America, the Middle East and Africa.
- Latin America, which offers consumer tissue, baby care, incontinence products, medical solutions, feminine care and professional hygiene in Latin America.
- Professional Hygiene, which offers professional hygiene in Europe, North America, the Middle East and Africa.

Global units:
- Global Brand, Innovation and Sustainability has global responsibility for customer and consumer brands, innovation and sustainability and public affairs.
- Global Manufacturing has global responsibility for production and technology concerning all product categories with the exception of medical solutions.
- Global Operational Services has global responsibility for sourcing, logistics, business services, IT and digitalization.

Essity's business units and global units adhere to the principle of distinct decentralization of responsibility and authority. The business units and the global units have a delegated responsibility for managing and developing their respective operations through established objectives and strategies, a process that is also centrally coordinated. The business units are responsible for their operating results, capital and cash flow. The business and earnings position is followed up by the entire Executive Management Team on a monthly basis. Each quarter, business review meetings are conducted during which the management of each business unit personally meets with the President and the CFO. These meetings function as a complement to the daily monitoring of operations. Through working procedures and terms of reference, a number of issues of material significance are placed under the control of the CEO and the company's Board of Directors. Essity reports its operations according to three business areas: Personal Care, Consumer Tissue and Professional Hygiene.

Rules and regulations
Certain internal rules and regulations
- Articles of Association
- Working procedures of the Board of Directors, including instructions for the Audit Committee and the Remuneration Committee
- Terms of reference issued by the Board to the President
- Code of Conduct
- Policy documents and instructions (in areas such as finance, human resources, sustainability, internal control, communication, pension and risk management as well as for specific issues, such as the processing of personal data, insider issues, conflicts of interest, competition law, corruption and diversity)

Certain external rules and regulations
- The Swedish Companies Act
- The Swedish Annual Accounts Act
- International Financial Reporting Standards (IFRS)
- EU Market Abuse Regulation (MAR)
- Nasdaq Stockholm's rules for issuers
- Swedish Code of Corporate Governance

Compliance with stock market regulations
- Essity complies with rules that apply in Sweden for listed companies and was not sanctioned by Finansinspektionen, the stock exchange's disciplinary board or any other authority or self-regulating body for violations of the rules concerning the stock market.

More detailed information about Essity's corporate governance is available on www.essity.com
- Articles of Association
- Swedish Code of Corporate Governance
- Information from the Nomination Committee ahead of the 2020 Annual General Meeting (composition, proposals and work)
- Other information ahead of the 2020 Annual General Meeting (notice, Board proposal for guidelines for remuneration of senior executives, information about routines for notifying attendance at the Meeting, etc.).

Activities during the year

Annual General Meeting
Essity held its AGM in Stockholm on Thursday, April 4, 2019.

The AGM elected the company's Board of Directors. Moreover, guidelines for determining the salary and other remuneration of the President and other senior executives were adopted, see page 50 and Note C2 on pages 80–81.

Nomination Committee
Under the Swedish Corporate Governance Code, a company listed on Nasdaq Stockholm shall have a nomination committee, the purpose of which is to make proposals to the AGM in respect of the election of the Chairman of the Meeting, Board of Directors, Chairman of the Board and auditor, remuneration of each Board Member (divided between the Chairman of the Board and other Board Members), remuneration of the auditor, and where applicable, proposals for amendments to the instruction for the Nomination Committee. At the 2017 AGM, the following instructions to the Nomination Committee were adopted to apply until further notice:

"The Nomination Committee is to comprise representatives of the four largest shareholders, who express a wish to take part in the Nomination Committee, in terms of voting rights as per the shareholders' register maintained by the company on the final banking day of August, as well as the Chairman of the Board, who also convenes the first meeting of the Nomination Committee. The member representing the largest shareholder in terms of votes is to be appointed as Chairman of the Nomination Committee. The Chairman of the Board shall not be Chairman of the Nomination Committee. If necessary, due to subsequent ownership changes, the Nomination Committee is entitled to call on one or two additional members from among the next largest shareholders in terms of voting rights. The total number of members shall be not more than seven. In the event that a member steps down from the Nomination Committee before the task is completed and the Nomination Committee decides it would be beneficial for a replacement to be appointed, such a replacement is to be appointed by the same shareholder or, if this shareholder is no longer among the largest shareholders in terms of voting rights, by the next largest shareholder in terms of voting rights. Changes to the composition of the Nomination Committee are to be disclosed immediately.

The composition of the Nomination Committee is to be announced by Essity no later than six months prior to the AGM. No remuneration is to be paid to the members of the Nomination Committee. Any expenses incurred during the work of the Nomination Committee are to be paid by Essity. The mandate period of the Nomination Committee extends until the composition of the next Nomination Committee is disclosed. The Nomination Committee is to submit proposals relating to the Chairman of the Meeting, the Board of Directors, the Chairman of the Board, Board fees for the Chairman of the Board and each of the other Board members, including remuneration for committee work, the company's auditor and auditor's fees, and to the extent deemed necessary, proposals for amendments to this instruction."

In its work, the Nomination Committee is to consider the rules that apply to the independence of Board members, as well as the requirement of diversity and breadth with the endeavor to achieve an even gender distribution and that the selection shall be based on expertise and experience relevant to Essity.

Composition of the Nomination Committee for the 2020 AGM
The composition of the Nomination Committee for the 2020 AGM is as follows:
- Helena Stjernholm, AB Industrivärden, Chairman of the Nomination Committee
- Jonas Jølle, Norges Bank Investment Management
- Stefan Nilsson, Handelsbanken Pension Funds and others
- Anders Oscarsson, AMF and AMF Fonder
- Pär Boman, Chairman of the Board, Essity

All shareholders have had an opportunity to submit proposals to the Nomination Committee. The Nomination Committee's proposal for the 2020 AGM is presented in the notice convening the AGM available on Essity's website www.essity.com. The 2020 AGM will be held on Thursday, April 2, see page 8.

The Nomination Committee was convened on two occasions prior to the 2020 AGM. The Chairman of the Board presented the Board evaluation and provided the Nomination Committee with information regarding Board and committee work during the year. When preparing proposals for the Board for the 2020 AGM, particular attention has been paid to the issues of diversity and an even gender distribution, and the Nomination Committee thus applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy. The aim was to retain gender balance on both the Board and the Board's committees. When preparing its proposal for the election of auditors, the Nomination Committee also gave consideration to the recommendation of the Audit Committee.

Board of Directors
Essity's Board of Directors comprises nine members elected by the AGM.

Board of Directors and committees

			Committees		Attendance[1]		
Board of Directors	Elected	Dependence	Audit	Remuneration	Board of Directors (9)	Audit Committee (6)	Remuneration Committee (3)
Ewa Björling	2016				9/9		
Pär Boman	2016	■	x	Chairman	9/9	6/6	3/3
Maija-Liisa Friman	2016				9/9		
Annemarie Gardshol	2016				8/9		
Magnus Groth	2016	■			9/9		
Bert Nordberg	2016		x	x	9/9	6/6	3/3
Louise Svanberg	2016			x	9/9		3/3
Lars Rebien Sørensen	2017				8/9		
Barbara Milian Thoralfsson	2016		Chairman		9/9	6/6	

[1] Board meetings January 1–December 31, 2019.
■ = Dependent in relation to the company's major shareholder, AB Industrivärden.
■ = President of Essity, dependent in relation to the company and corporate management.

Composition of the largest shareholders, Nomination Committee at August 31, 2019 (share of votes)

	%
AB Industrivärden	29.9
Norges Bank Investment Management	6.9
Handelsbanken's foundations, etc.	3.8
AMF Insurance and Funds	3.3

Ewa Björling, Pär Boman, Maija-Liisa Friman, Annemarie Gardshol, Magnus Groth, Bert Nordberg, Louise Svanberg, Lars Rebien Sørensen and Barbara Milian Thoralfsson were elected as Board members in 2019. Pär Boman was elected as the Chairman of the Board.

The independence of Board members is presented in the table on page 48. Essity complies with the requirements of the Swedish Corporate Governance Code that stipulate that not more than one member elected by the AGM shall be a member of corporate management, that the majority of the members elected by the AGM shall be independent of the company and company management, and that not fewer than two of these shall also be independent of the company's major shareholders. All of the AGM-elected Board members have experience of the requirements incumbent upon a listed company. Five of the Board members are women, corresponding to 55% of the total number of AGM-elected Board members. The employees have appointed Susanna Naumanen, Örjan Svensson and Niclas Thulin as representatives to the Board for the period until the 2020 AGM, and their deputies Niklas Engdahl, Martin Ericsson and Andreas Larsson.

Board activities

In 2019, the Board was convened nine times. The Board has fixed working procedures that describe in detail which ordinary agenda items are to be addressed at the various Board meetings of the year. Recurring agenda items are finances, the market situation, investments and adoption of the financial reports. The Board also establishes and evaluates the company's overall targets and strategy and decides on significant internal rules. Another key task is to continuously monitor the internal control of the compliance of the company and its employees with relevant internal and external rules, and that the company has well-functioning procedures for market disclosures. On a regular basis throughout the year, the Board has also dealt with reports from the Audit and Remuneration Committees and reports on strategy, market, internal audit, internal control and financial operations. The company's auditor regularly presents a report on its audit work and these issues are discussed by the Board. The Business Unit Presidents present their respective operations and current issues affecting them.

In 2019, the Board of Directors has — in addition to the customary work of the Board — focused on the integration of BSN medical and on issues within the scope of ongoing efficiency improvement and profitability programs. During the autumn, the Board of Directors also focused on strategy work and issues in connection with the cost-savings program presented by the company on September 28, 2018, in light of the then prevailing market situation, raised raw material and energy costs and events in the business environment.

Evaluation of the Board's work

The work of the Board, like that of the President and the Chairman, is evaluated annually using a systematic and structured process. The purpose of this work is to obtain a sound basis for the Board's own development work and to provide the Nomination Committee with decision data for its nomination work. External expertise was used. The evaluation took the form of an anonymous questionnaire and interviews as well as group and individual discussions. The evaluation covers such areas as the Board's methods of work, effectiveness, expertise and the year's work. The Board was provided with feedback after the results were compiled. The Nomination Committee was also informed of the results of the evaluation.

Audit Committee

The Audit Committee comprises Chairman Barbara Milian Thoralfsson, Pär Boman and Bert Nordberg. The Audit Committee held six meetings during the year. In addition, members have also held meetings with internal audit, the auditors and the CFO, and held meetings with the auditors and CFOs of large partly-owned companies. In its monitoring of the financial reporting, the Committee dealt with relevant accounting issues, internal auditors' reviews, auditing work, a review of various measurement issues, such as testing of impairment requirements for goodwill, and the preconditions for the year's pension liability calculations. The Audit Committee also prepared a recommendation to be used by the Nomination Committee when deciding on its proposal to the AGM regarding the election of auditors.

Remuneration Committee

The Remuneration Committee comprises Chairman Pär Boman, Bert Nordberg and Louise Svanberg. The Remuneration Committee held three meetings in 2019. Activities mainly concerned remuneration and other employment terms and conditions for senior executives, and current remuneration structures and remuneration levels in the Group. In addition, the Committee prepared the question, prior to the Board's decision, of guidelines for remuneration of senior executives taking into account new legislative requirements.

Internal audit

The basis of the work of the internal audit is a risk analysis based on external and internal information carried out in close dialogue with management teams at Essity. The risk analysis forms the basis of an audit plan, which is presented to the Audit Committee together with the risk analysis. In 2019, 114 audit projects were performed and reported at meetings with the Audit Committee.

Work in 2019 involved follow-up of the units' progress with process-based control, follow-up of the efficiency in internal governance and control, follow-up of major investments and restructuring programs, follow-up of sustainability, and follow-up of compliance with Essity's policies.

External auditor

The 2019 Annual General Meeting appointed the accounting firm of Ernst & Young AB as the company's auditor for a mandate period of one year. The accounting firm notified the company that Hamish Mabon, Authorized Public Accountant, would be the auditor in charge. Hamish Mabon is also the auditor for Svenska Cellulosa Aktiebolaget SCA, Skanska AB, AB Tetra Pak and Husqvarna AB, among other companies. He owns no shares in the company.

In accordance with its formal work plan, the Board met with the auditors at three scheduled Board meetings in 2019. The auditor also attended each meeting of the Audit Committee. At these meetings, the auditor presented and received opinions on the focus and scope of the planned audit and delivered verbal audit and review reports. Furthermore, at the Board's third scheduled autumn meeting, the auditor delivered an in-depth verbal report on the audit for the year. The working procedures specify a number of mandatory issues that must be addressed. These include matters of importance that have been a cause for concern or discussion during the audit, business routines and transactions where differences of opinion may exist regarding the choice of accounting methods. The auditor shall also disclose consultancy work conducted for Essity as well as other dependencies in relation to the company and its management. On each occasion, Board members have had an opportunity to ask the auditors questions. Certain parts of the detailed discussion on the accounts take place without representatives of company management being present.

Remuneration, Management and Board of Directors

Guidelines
The 2019 AGM adopted guidelines for remuneration of senior executives that are based on a total remuneration package comprising a fixed salary, variable salary and other benefits, and a pension, see Note C2 on pages 80–81. Updated guidelines, adapted to the new legal provisions on remuneration to senior executives and changes in the Swedish Corporate Governance Code that took effect on January 1, 2020, have been proposed to the 2020 AGM, see pages 29–30.

Remuneration of the President and other senior executives
Remuneration of the President and other senior executives is presented in Note C2 on pages 80–81. Variable remuneration for the President, CFO and other senior executives was maximized to a total of 100% of the fixed salary for 2019. For two Business Unit Presidents, stationed in Latin America and the US, the maximum outcome is 110–130%.

Variable remuneration and strategic targets
Programs for variable remuneration are formulated to support the Group's strategic targets. The short-term program is individually adapted and based mainly on cash flow, EBITA margin and organic sales growth. The long-term program is based on the Essity share's long-term total shareholder return, whereby remuneration is linked to 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 competitors' shares over a three-year period, where the maximum outcome requires a 5% better outcome for the Essity share compared with the benchmark index during the multiannual period.

Payment of remuneration for achieving the long-term performance target is also associated with requirements for certain investments in the Essity share and multiyear ownership of the shares.

Remuneration of the Board
The total remuneration of the AGM-elected Board members amounted to SEK 9,010,000 in accordance with the AGM's resolution. See Note C3 on page 82 for further information.

Internal control and financial reporting

The Board's responsibility for internal governance and control is regulated in the Swedish Companies Act, the Annual Accounts Act and the Swedish Corporate Governance Code. The Annual Accounts Act requires that the company, each year, describes its system for internal control and risk management with respect to financial reporting. The Board bears the overall responsibility for financial reporting and its working procedures regulate the internal division of work between the Board and its committees.

The Audit Committee has the important task of preparing the Board's work to assure the quality of financial reporting. This preparation work includes issues relating to internal control and regulation compliance, control of recognized values, estimations, assessments and other activities that may impact the quality of the financial reports. The Committee has charged the company's auditor with the task of specifically examining the degree of compliance in the company with the rules for internal control, both general and detailed.

Financial reporting to the Board

The Board's working procedures stipulate which reports and information of a financial nature are to be submitted to the Board at each scheduled meeting. The President, together with the Chairman, ensures that the Board receives the reports required to enable the Board to continuously assess the company's and Group's financial position. Detailed instructions specifically outline the types of reports that the Board is to receive at each meeting.

Internal reporting

For a number of years now, Essity has used a shared reporting system for financial reports. An increasing number of units within Essity are also introducing the same accounting system based on a common IT platform.

Accounting and reporting for several units are, to a certain extent, conducted in Shared Service Centers. Reporting is therefore more efficient and uniform.

External financial reporting

The quality of external financial reporting is guaranteed via a number of actions and procedures. The President is responsible for ensuring that all information issued, such as press releases with financial content, presentation material for meetings with the media, owners and financial institutions, is correct and of a high quality. The responsibilities of the company's auditors include reviewing accounting issues that are critical for the financial reporting and reporting their observations to the Audit Committee and the Board of Directors. In addition to the audit of the annual accounts, a review of the half-year report and of the company's administration and internal control is carried out.

Risk management

With regard to financial reporting, the risk that material errors may be made when reporting the company's financial position and results is considered the primary risk. To minimize this risk, control documents have been established pertaining to accounting, procedures for annual accounts and follow-up of reported annual accounts. There is also a joint system for reporting annual accounts. Essity's Board of Directors and management assess the financial reporting from a risk perspective on an ongoing basis. To provide support for this assessment, the company's income statement and balance sheet items are compared with earlier reports, budgets and other planned figures. Control activities that are significant to financial reporting are carried out using the company's IT system. For further information, see the Risk and risk management section on pages 34–39.

Control activities and follow-up

Significant instructions and guidelines related to financial reporting are prepared and updated regularly by the Group Function Finance and are easily accessible on the Group's intranet. The Group Function Finance is responsible for ensuring compliance with instructions and guidelines. Process managers at various levels within Essity are responsible for carrying out the necessary control measures with respect to financial reporting. An important role is played by the business unit's controller organizations, which are responsible for ensuring that financial reporting from each unit is correct, complete and delivered in a timely manner. In addition, each business unit has a Finance Manager with responsibility for the individual business unit's financial statements. The company's control activities are supported by the budgets prepared by each business unit and updated during the year through continuous forecasts.

Essity has a standardized system of control measures involving processes that are significant to the company's financial reporting. The controls are adapted to the operational process and system structure of each unit. Accordingly, each unit prepares a record of the actual controls to be carried out in the unit in question. Control of these processes is assessed through self-evaluation followed up by an internal audit. In some cases, Essity has enlisted external help to validate these controls.

Financial results are reported and examined regularly within the management teams of the operating units and communicated to Essity's management at monthly and quarterly meetings. Before reports are issued, results are analyzed to identify and eliminate any mistakes in the process until the year-end closing. For additional information, see the Internal audit section on page 49.

The Board follows up to ensure that the internal control and reporting to the Board functions through continuous reporting from the President and CFO and through reporting from the internal audit unit in the scope of the audit plan set annually. Internal audit also continuously reports its observations in this respect to the Audit Committee. Internal audit's tasks include following up compliance with the company's internal rules, and the results of this follow-up are reported to the Board through the Audit Committee.

Board of Directors and Auditors

Elected by the Annual General Meeting

Pär Boman (1961)

Engineering and Business Administration degrees

Chairman of the Board since 2016.

Chairman of the Board of Svenska Handelsbanken AB and Svenska Cellulosa Aktiebolaget SCA, Deputy Chairman of the Board of AB Industrivärden and member of the Board of Skanska AB.

2006–2015 President of Handelsbanken

Elected: 2016

Independent of the company and corporate management.

Own shareholdings and those of related persons, Class B shares: 3,000

Ewa Björling (1961)

Med. Dr. Sci. and Associate Professor from Karolinska Institutet.

Chairman of the Board of The Swedish Petroleum & Biofuels Institute (SPBI). Member of the boards of Biogaia AB, Bioarctic AB and Mobilaris AB. Former member of the Boards of the Swedish National Insurance Office, the Swedish International Development Cooperation Agency (SIDA) and Svenska Cellulosa Aktiebolaget SCA.

Minister for Trade 2007–2014, and Minister for Nordic Cooperation 2010–2014. Previously Karolinska Institutet.

Elected: 2016

Independent of the company, corporate management and Essity's major shareholders.

Own shareholdings and those of related persons: 0

Maija-Liisa Friman (1952)

MSc Eng.

Partner of Boardman Oy.

Former Chairman of the Board of Helsinki Deaconess Institute and Ekokem. Vice Chairman of Neste Corporation, member of the Boards of TeliaSonera, Rautaruukki, Metso, Talvivaara Mining Company Plc, Finnair, Svenska Cellulosa Aktiebolaget SCA and Securities Market Association.

Former CEO of Aspocomp Group Plc 2004–2007 and President of Vattenfall Oy and Gyproc Oy.

Elected: 2016

Independent of the company, corporate management and Essity's major shareholders.

Own shareholdings and those of related persons: 0

Annemarie Gardshol (1967)

MSc Eng.

Member of the Board of Svenska Cellulosa Aktiebolaget SCA.

CEO of PostNord and President PostNord Sverige.

Former member of the Boards of Etac AB, Bygghemma AB, Ortivus and Semcon. Former President of PostNord Strålfors Group AB and various management positions in Gambro AB and McKinsey & Company.

Elected: 2016

Independent of the company, corporate management and Essity's major shareholders.

Own shareholdings and those of related persons, Class B shares: 2,300

Bert Nordberg (1956)

Engineer

Chairman of the Board of Vestas Wind Systems A/S. Member of the Boards of Svenska Cellulosa Aktiebolaget SCA and SAAB.

Previously held various management positions in Digital Equipment Corp. and Ericsson, President of Sony Mobile Communications AB 2009–2012. Former Chairman of the Board of Sony Mobile Communications and member of the Boards of BlackBerry Ltd, Skistar AB, Axis AB and AB Electrolux.

Elected: 2016

Independent of the company, corporate management and Essity's major shareholders.

Own shareholdings and those of related persons, Class B shares: 16,800

Louise Svanberg (1958)

MSc Econ.

Member of the Boards of Dana Farber Cancer Institute, Boston and CERAS Health, New York. Chairman of the Swedes Worldwide organization.

Previously held various management positions in EF Education First, including President 2002–2008 and Chairman of the Board 2008–2010. Former member of the Boards of Careers Australia Group Ltd and Svenska Cellulosa Aktiebolaget SCA.

Elected: 2016

Independent of the company, corporate management and Essity's major shareholders.

Own shareholdings and those of related persons, Class B shares: 18,940

Information regarding own shareholdings and those of related persons pertains to the situation on December 31, 2019.

Lars Rebien Sørensen (1954)

BSc Forestry and MSc Econ.

Chairman of Axcel. Member of the Boards of Jungbunzlauer, Novo Holding A/S, Novo Nordisk Foundation and Thermo Fisher Scientific Inc.

Former Deputy Chairman of the Board of Carlsberg A/S, President and CEO of Novo Nordisk 2000–2017.

Elected: 2017

Independent of the company, corporate management and Essity's major shareholders.

Own shareholdings and those of related persons: 0

Barbara Milian Thoralfsson (1959)

MBA, BA

Member of the Board of Hilti AG, G4S Plc and Svenska Cellulosa Aktiebolaget SCA.

Former President of NetCom ASA 2001–2005 and President of Midelfart & Co AS 1995–2000. Former member of the Boards of Cable & Wireless Plc, AB Electrolux, Orkla ASA, Tandberg ASA and Telenor ASA.

Elected: 2016

Independent of the company, corporate management and Essity's major shareholders.

Own shareholdings and those of related persons: 0

Magnus Groth (1963)

MBA and MSc ME

President and CEO of Essity.

Former President and CEO of SCA 2015–2017, former President of SCA Consumer Goods Europe 2011–2015. President of Studsvik AB (publ) 2006–2011 and SVP of Vattenfall 2001–2005. Former member of the Board of Acando AB, Svenska Cellulosa Aktiebolaget SCA and Studsvik.

Elected: 2016

Independent of Essity's major shareholders.

Own shareholdings and those of related persons, Class B shares: 48,900

Appointed by the employees

Susanna Naumanen (1966)

Operator at Essity Hygiene and Health AB, Falkenberg

Member of the Swedish Trade Union Confederation (LO).

Appointed: 2019

Own shareholdings and those of related persons: 0

Örjan Svensson (1963)

Senior Industrial Safety Representative at Essity Hygiene and Health AB, Edet Bruk, Lilla Edet.

Member of the Swedish Trade Union Confederation (LO).

Former member of the Board of Svenska Cellulosa Aktiebolaget SCA.

Appointed: 2017

Own shareholdings and those of related persons, Class B shares: 112

Niclas Thulin (1976)

IT Specialist Collaboration & Workplace at Essity Hygiene & Health AB, Gothenburg

Member of the Council for Negotiation and Cooperation (PTK).

Appointed: 2017

Own shareholdings and those of related persons: 0

Deputies

Niklas Engdahl (1980)

Employed at Essity Hygiene and Health AB, Lilla Edet
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2017
Own shareholdings and those of related persons: 0

Martin Ericsson (1968)

Employed at Essity Hygiene and Health AB, Falkenberg
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2017
Own shareholdings and those of related persons, Class A shares: 200, Class B shares: 200

Andreas Larsson (1989)

Employed at Essity Hygiene and Health AB, Gothenburg
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2018
Own shareholdings and those of related persons, Class B shares: 1,420

Auditors

Ernst & Young AB

Senior Auditor: Hamish Mabon, Authorized Public Accountant

Own shareholdings and those of related persons: 0

Secretary to the Board

Mikael Schmidt (1960)

Master of Laws
Senior Vice President, Group Function Legal Affairs, General Counsel

Employed since: 1992

Own shareholdings and those of related persons, Class B shares: 27,000

Information regarding own shareholdings and those of related persons pertains to the situation on December 31, 2019.

Executive Management Team

Magnus Groth (1963)
President and CEO
MBA and MSc ME
Employed since: 2011
Own shareholdings and those of related persons, Class B shares: 48,900

Fredrik Rystedt (1963)
CFO and Executive Vice President, Head of Group Function Finance
MSc Econ.
Employed since: 2014
Own shareholdings and those of related persons, Class B shares: 18,800

Joséphine Edwall Björklund (1964)
Senior Vice President, Group Function Communications
University Degree in Communications
Employed since: 2012
Own shareholdings and those of related persons, Class B shares: 9,225

Pablo Fuentes (1973)
President, Latin America
MSc, MBA
Employed since: 2006
Individuals' own and related parties' shareholdings Essity ADR: 9,606
Own shareholdings and those of related persons, Class B shares: 6,948

Donato Giorgio (1973)
President, Global Manufacturing
Master in Mechanical Engineering
Employed since: 2009
Own shareholdings and those of related persons, Class B shares: 8,507

Ulrika Kolsrud (1970)
President, Health and Medical Solutions
MSc Eng.
Employed since: 1995
Own shareholdings and those of related persons, Class B shares: 7,003

Information regarding own shareholdings and those of related persons pertains to the situation on December 31, 2019.

Don Lewis (1961)
President, Professional Hygiene
BSc BA
Employed since: 2002
Own shareholdings and those of related persons Essity ADR: 22,127

Mikael Schmidt (1960)
Senior Vice President, Group Function Legal Affairs, General Counsel and Secretary to the Board
Master of Laws
Employed since: 1992
Own shareholdings and those of related persons, Class B shares: 27,000

Robert Sjöström (1964)
President, Global Operational Services
MSc Econ, MBA
Employed since: 2009
Own shareholdings and those of related persons, Class B shares: 22,000

Tuomas Yrjölä (1978)
President, Global Brand, Innovation and Sustainability
MSc Econ, BA
Employed since: 2014
Own shareholdings and those of related persons, Class B shares: 6,395

Anna Sävinger Åslund (1969)
Senior Vice President, Group Function Human Resources
BSc Human Resources
Employed since: 2001
Own shareholdings and those of related persons, Class B shares: 5,685

Volker Zöller (1967)
President, Consumer Goods
BSc BA
Employed since: 1994
Own shareholdings and those of related persons, Class B shares: 9,975

Information regarding own shareholdings and those of related persons pertains to the situation on December 31, 2019.

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- EQ Equity
- IS Income statement
- CI Statement of comprehensive income
- CF Cash flow statement
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Consolidated income statement IS

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

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

Consolidated statement of comprehensive income CI

SEKm	2019	2018	2017
IS **Profit for the period**	**10,212**	**8,552**	**8,785**
Other comprehensive income for the period			
Items that may not be reclassified to the income statement			
Actuarial gains/losses on defined benefit pension plans	482	–1,036	1,061
Fair value through comprehensive income	6	–5	–
Income tax attributable to components in other comprehensive income	52	176	–218
	540	**–865**	**843**
Items that have been or may be reclassified subsequently to the income statement			
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	–725	471	35
Transferred to profit or loss for the period	112	–378	–56
Transferred to cost of hedged investments	–	–	10
Translation differences in foreign operations	2,095	2,080	320
Gains/losses from hedges of net investments in foreign operations	–168	–122	–1,968
Other comprehensive income from associated companies	–14	23	–22
Income tax attributable to components in other comprehensive income	179	4	439
	1,479	**2,078**	**–1,242**
Other comprehensive income for the period, net of tax	**2,019**	**1,213**	**–399**
Total comprehensive income for the period	**12,231**	**9,765**	**8,386**
Total comprehensive income attributable to:			
Owners of the Parent company	11,006	8,893	8,029
Non-controlling interests	1,225	872	357

By operating segment	Net sales			Adjusted EBITA[1]		
SEKm	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Personal Care	48,340	45,342	40,586	6,746	6,354	5,937
Consumer Tissue	49,904	45,125	42,014	5,321	3,331	4,084
Professional Hygiene	30,731	28,017	26,700	4,463	3,841	4,004
Other	0	16	–35	–690	–591	–620
Total	**128,975**	**118,500**	**109,265**	**15,840**	**12,935**	**13,405**

1) Excluding items affecting comparability.

Consolidated statement of change in equity EQ

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

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

Consolidated operating cash flow statement, supplementary disclosure OCF

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

	2019		2018		2017	
Net debt	SEKm	EURm	SEKm	EURm	SEKm	EURm
Net debt, January 1[2]	**–54,404**	**–5,294**	**–52,467**	**–5,332**	**–35,173**	**–3,680**
Changed opening balance for net debt due to IFRS 16 Leases[1]	–3,786	–358	–	–	–	–
Net cash flow[1]	8,915	843	1,307	127	–18,791	–1,951
Remeasurements to equity[1]	488	46	–1,041	–102	1,061	110
Investments in non-operating assets through leases[1]	–434	–41	–	–	–	–
Translation differences	–1,719	–82	–2,203	13	436	189
Net debt, December 31[2]	**–50,940**	**–4,886**	**–54,404**	**–5,294**	**–52,467**	**–5,332**

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.58 (10.25; 9.63) was used.
2) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.43 (10.28; 9.84) was used for net debt.

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

Consolidated cash flow statement CF

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

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 10.58 (10.25; 9.63) was used.
2) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 10.43 (10.28; 9.84) was used.

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

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

T:1 Adjustment for non-cash items

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

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

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

T:3 Interest paid, SEKm	2019	2018	2017
Paid interest including paid interest capitalized in intangible assets and property, plant and equipment recognized in Investing activities	–1,049	–842	–845
Interest received	105	85	156
Total	**–944**	**–757**	**–689**

Change in liabilities attributable to financing activities[1)]

SEKm	Value at January 1	Cash flow	Acquisi-tions/ divest-ments	Trans-lation differ-ences	Actuarial gains/ losses	Effect of IFRS 16 Leases	Other changes	Value at December 31
2019								
Non-current and current financial liabilities	54,327	–8,498	–214	1,793	–	3,786	868[2)]	52,062
Provisions for pensions including surplus in funded pension plans	4,141	–659	–1	26	–482	–	–	3,025
Assets for hedging financial liabilities included in cash flow from financing activities	–846	–103	–	1	–	–	–	–948
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	**57,622**	**–9,260**	**–215**	**1,820**	**–482**	**3,786**	**868**	**54,139**
2018								
Non-current and current financial liabilities	54,838	–2,913	231	2,145	–	–	26[3)]	54,327
Provisions for pensions including surplus in funded pension plans	3,393	–420	2	130	1,036	–	–	4,141
Assets for hedging financial liabilities included in cash flow from financing activities	–1,269	424	–	–1	–	–	–	–846
Total Financial liabilities including surplus in funded pension plans attributable to financing activities	**56,962**	**–2,909**	**233**	**2,274**	**1,036**	**–**	**26**	**57,622**
2017								
Non-current and current financial liabilities	36,873	5,776	12,730	–613	–	–	72[3)]	54,838
Provisions for pensions including surplus in funded pension plans	4,938	–795	311	–	–1,061	–	–	3,393
Less: current financial liability to Group companies	–485	485	–	–	–	–	–	–
Assets for hedging financial liabilities included in cash flow from financing activities	–791	–477	–	–1	–	–	–	–1,269
Total Financial liabilities including surplus in funded pension plans attributable to financing activities excluding receivables from and liabilities to Group companies	**40,535**	**4,989**	**13,041**	**–614**	**–1,061**	**–**	**72**	**56,962**
Financial receivables from Group companies	–1,436	1,437	–	–1	–	–	–	–
Current financial liability to Group companies	485	–485	–	–	–	–	–	–
Net change in financial receivables from and liabilities to Group companies	**–951**	**952**	**–**	**–1**	**–**	**–**	**–**	**–**
Total Financial liabilities including surplus in funded pension plans attributable to financing activities including receivables from and liabilities to Group companies	**39,584**	**5,941**	**13,041**	**–615**	**–1,061**	**–**	**72**	**56,962**

1) From 2019, all payments for pensions are recognized in cash flow from financing activities, see comments on the consolidated cash flow statement on the previous page.
2) Other changes 2019 relate to change in accrued interest SEK –17m, change in liability related to financial leases in accordance with IFRS 16 of SEK 885m, of which SEK 451m relates to operating assets and SEK 434m to non-operating assets.
3) Other changes 2018 relate to change in accrued interest of SEK +17m and an adjustment for a financial lease liability of SEK +9m. Other changes 2017 relate to change in accrued interest of SEK +72m.

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

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

Consolidated balance sheet BS

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

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

A. ACCOUNTING PRINCIPLES AND USE OF ALTERNATIVE PERFORMANCE MEASURES

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

READING INSTRUCTIONS

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

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

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

BS Balance sheet
EQ Equity
IS Income statement
CI Statement of comprehensive income
CF Cash flow statement
OCF Operating cash flow statement
Tx:x Reference to table in note

BASIS FOR PREPARATION

Essity's financial statements are prepared in accordance with the Annual Accounts Act and International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), as adopted within the EU, and the Swedish Financial Reporting Board, Recommendation RFR 1 Supplementary Accounting Rules for Groups. The accounts for both the Group and the Parent company relate to the fiscal year that ended on December 31, 2019. Essity applies the historical cost method for measurement of assets and liabilities except for financial assets and liabilities, including derivative instruments, measured at fair value through profit or loss, which are measured at fair value either in profit or loss or in other comprehensive income.

New or amended accounting standards 2019

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

IFRS 16 Leases

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

IFRIC 23 Uncertainty over Income Tax Treatments

In 2017, a new interpretation was issued regarding the recognition of taxes, IFRIC 23. The interpretation clarifies how the recognition and measurement of uncertain tax positions is to be conducted. The new interpretation will apply from January 1, 2019. A retrospective approach or a modified retrospective approach is permitted. Essity has chosen the modified retrospective approach, meaning that comparative years are not restated. As a result of the new interpretation, SEK 713m was reclassified from current and non-current provisions to tax liabilities in 2019.

New or amended accounting standards after 2019

A number of new and amended accounting standards have not yet come into effect and have not been applied in advance in preparing the Group's and the Parent company's financial statements.

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

IFRS 9 Financial instruments and IFRS 7 Financial instruments: Disclosures

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

USE OF ASSESSMENTS KAA

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

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

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

PRINCIPLES OF CONSOLIDATION

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

TRANSLATION OF FOREIGN CURRENCY

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

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

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

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

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

TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCY

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

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

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

GOVERNMENT GRANTS

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

A2. USE OF ALTERNATIVE PERFORMANCE MEASURES

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

The Annual Report refers to a number of performance measures not defined in IFRS. These performance measures are used to assist investors and company management to analyze the company's operations and objectives. These non-IFRS measures may differ from similar terms used by other companies.

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

CALCULATION OF PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

RETURN MEASURES	**Return is a financial term that describes how much the value of an asset changes from an earlier point in time**	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/EBITA as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations.
Adjusted return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/EBITA, excluding items affecting comparability, as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA for the quarter, excluding items affecting comparability, multiplied by four as a percentage of capital employed for the two most recent quarters.	A central ratio for measuring return on capital tied up in operations, excluding items affecting comparability.

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

CAPITAL MEASURES	Shows how capital is utilized and the company's financial strength	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Return on equity	For the Group, return on equity is calculated as profit for the period as a percentage of average equity.	Shows, from a shareholder perspective, the return that is generated on the owners' capital that is invested in the company.
Adjusted return on equity	For the Group, adjusted return on equity is calculated as profit for the period, excluding items affecting comparability, as a percentage of average equity.	Shows, from a shareholder perspective, the return excluding items affecting comparability that is generated on the owners' capital that is invested in the company.
Equity	The equity reported in the consolidated balance sheet consists of taxed equity increased by the equity portion of the Group's untaxed reserves and non-controlling interests. The deferred tax liability in untaxed reserves has been calculated on the basis of the corporate tax rate that has been approved and will take effect given that the reserves are expected to be realized.	Equity is the difference between the Group's assets and liabilities, which corresponds to the Group's equity contributed by owners and the Group's accumulated profits including the share of associated non-controlling interests.
Equity per share	Equity in relation to the average number of shares outstanding that exist in Essity Aktiebolag (publ).	A measure of the amount of equity that exists per share and is used for measuring the share against the share price.
Equity/assets ratio	Equity expressed as a percentage of total assets.	A traditional measure for showing financial risk, expressing the percentage of total assets that is financed by the owners.
Capital employed	The Group's and business areas' capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.	This measure shows the amount of total capital that is used in the operations and is thus one of the components for measuring the return from operations.

SEKm	2019	2018	2017
CAPITAL EMPLOYED			
Total assets	162,295	154,266	147,016
Financial assets	–6,988	–5,181	–6,912
Non-current, non-interest-bearing liabilities	–7,269	–9,037	–8,650
Current, non-interest-bearing liabilities	–34,297	–30,745	–29,417
Capital employed	**113,741**	**109,303**	**102,037**
CAPITAL EMPLOYED			
Personal Care	44,268	41,768	39,447
Consumer Tissue	47,345	44,915	43,569
Professional Hygiene	22,996	22,153	20,034
Other	–868	467	–1,013
Capital employed	**113,741**	**109,303**	**102,037**

Non-IFRS performance measure	Description	Reason for use of the measure
Capital turnover	Net sales for the year divided by average capital employed.	Shows in a clear manner how effectively capital is employed. Together with sales growth and the operating margin, the capital turnover ratio is a key measure for monitoring value creation.
Working capital	The Group's and business areas' working capital is calculated as current operating receivables less current operating liabilities.	This measure shows how much working capital is tied up in the operations and can be put in relation to sales to understand how effectively tied-up working capital is used.

SEKm	2019	2018	2017
WORKING CAPITAL			
Inventories	15,764	15,234	13,739
Trade receivables	19,864	18,687	17,607
Other current receivables	2,113	2,599	2,549
Trade payables	–15,802	–15,911	–14,748
Other current liabilities	–14,998	–12,792	–12,569
Other	–159	–249	–677
Working capital	**6,782**	**7,568**	**5,901**

CAPITAL MEASURES, cont.	Shows how capital is utilized and the company's financial strength	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Net debt	The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less pension assets, cash and cash equivalents and interest-bearing current and non-current receivables.	Net debt is the most relevant measure for showing the company's total debt financing.

SEKm	2019	2018	2017
NET DEBT			
Surplus in funded pension plans	2,841	1,117	1,148
Non-current financial assets	694	634	552
Current financial assets	525	422	1,105
Cash and cash equivalents	2,928	3,008	4,107
Financial assets	**6,988**	**5,181**	**6,912**
Non-current financial liabilities	43,079	43,500	47,637
Provisions for pensions	5,866	5,258	4,541
Current financial liabilities	8,983	10,827	7,201
Financial liabilities	**57,928**	**59,585**	**59,379**
Net debt	**50,940**	**54,404**	**52,467**

Non-IFRS performance measure	Description	Reason for use of the measure
Debt/equity ratio	Expressed as net debt in relation to equity.	Shows financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.
Debt payment capacity, %	Expressed as 12 months rolling cash surplus (see page 69) in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt.
Adjusted debt payment capacity, %	Adjusted debt payment capacity expressed as rolling 12 months cash surplus (see page 69) in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.
Net debt/EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA.	A financial measure that shows the company's capacity to repay its debt.
Net debt/Adjusted EBITDA	Calculated as the closing balance of net debt in relation to 12 months rolling EBITDA, excluding items affecting comparability.	A financial measure that shows the company's capacity to repay its debt, adjusted for the impact of items affecting comparability.

SEKm	2019	2018	2017
Debt/equity ratio, multiple	0.81	0.99	1.06
Debt payment capacity, %	38	25	26
Adjusted debt payment capacity, %	40	27	27
Net debt/EBITDA	2.33	3.11	2.91
Net debt/Adjusted EBITDA	2.25	2.96	2.83

PERFORMANCE MEASURES	Various types of performance measures and margin measures expressed as a percentage of sales	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Organic net sales	Underlying change in net sales compared with the preceding period attributable to changed volume, price or mix excluding changes attributable to exchange rate effects, acquisitions and divestments.	This measure is of major importance for management in its monitoring of underlying net sales driven by changes in volume, price and product mix for comparable units between different periods.

SEKm	2019	2018	2017
ORGANIC NET SALES			
Personal Care			
Organic net sales	1,549	1,213	586
Exchange rate effects	1,623	1,173	48
Acquisitions/Divestments	–175	2,371	6,301
Recognized change	**2,997**	**4,757**	**6,935**
Consumer Tissue			
Organic net sales	2,754	1,089	231
Exchange rate effects	1,972	1,832	223
Acquisitions/Divestments	53	190	0
Recognized change	**4,779**	**3,111**	**454**
Professional Hygiene			
Organic net sales	1,010	516	411
Exchange rate effects	1,703	780	137
Acquisitions/Divestments	1	22	150
Recognized change	**2,714**	**1,318**	**698**
Group			
Organic net sales	5,297	2,868	1,169
Exchange rate effects	5,299	3,785	406
Acquisitions/Divestments	–121	2,582	6,452
Recognized change	**10,475**	**9,235**	**8,027**

ORGANIC NET SALES, %	2019	2018	2017
Previous period sales	118,500	109,265	101,238
Organic net sales	5,297	2,868	1,169
Total organic sales for the period	123,797	112,133	102,407
Organic net sales, %	**4.5%**	**2.6%**	**1%**

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

SEKm	2019	2018	2017
Operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)			
Operating profit	14,349	10,759	11,905
Amortization of acquisition-related intangible assets	778	732	560
Depreciation/amortization	5,815	5,443	5,162
Depreciation right-of-use assets	884	–	–
Items affecting comparability, depreciation/amortization	0	0	2
Impairment	79	19	0
Items affecting comparability, impairment	–27	445	301
Items affecting comparability, impairment of acquisition-related intangible assets	–	69	85
EBITDA	**21,878**	**17,467**	**18,015**
Items affecting comparability excluding depreciation/amortization and impairment	740	930	554
Adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA)	**22,618**	**18,397**	**18,569**

SEKm	2019	2018	2017
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)			
Operating profit	14,349	10,759	11,905
Amortization of acquisition-related intangible assets	778	732	560
Items affecting comparability, amortization of acquisition-related intangible assets	–	69	85
Operating profit before amortization of acquisition-related intangible assets (EBITA)	**15,127**	**11,560**	**12,550**
EBITA margin	11.7%	9.8%	11.5%
Items affecting comparability, cost of goods sold	243	1,437	509
Items affecting comparability, sales, general and administration	470	–62	346
Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)	**15,840**	**12,935**	**13,405**
Adjusted EBITA margin	12.3%	10.9%	12.3%

Non-IFRS performance measure	Description	Reason for use of the measure
Items affecting comparability	Under items affecting comparability, Essity includes costs in connection with acquisitions, restructuring, impairment and other specific events. The latter item includes items not covered by acquisitions, restructuring and impairment but which are relevant when comparing earnings for one period with those of another. The item other specific events is specified in Note B3 Operating expenses on page 77.	Separate reporting of items affecting comparability between periods provides a better understanding of the company's underlying operating activities.
Restructuring costs	Costs for impairment together with headcount reductions in connection with restructuring.	This measure shows the specific costs that have arisen in connection with restructuring of a specific operation, which contributes to a better understanding of the underlying cost level in the continuing operations.
Adjusted gross margin	Relates to adjusted gross profit as a percentage of net sales for the period.	Adjusted gross margin is cleared of items affecting comparability and is thus a better measure than gross margin for showing the company's margins before the effect of costs such as sales, general and administration.
EBITA margin	Operating profit before amortization of acquisition-related intangible assets as a percentage of net sales for the period.	EBITA margin is a good complement to enable margin comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth.
Adjusted EBITA margin	Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability, as a percentage of net sales for the period.	Adjusted EBITA margin is a good complement to enable margin comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth, excluding items affecting comparability.
Operating margin	Operating profit as a percentage of net sales for the period.	The operating margin is a key measure together with sales growth and capital turnover ratio for monitoring value creation.
Adjusted operating margin	Operating profit, excluding items affecting comparability, as a percentage of net sales for the period.	Adjusted operating margin is key measure together with sales growth and capital turnover ratio for monitoring value creation.
Adjusted operating profit	Calculated as operating profit before financial items and tax, excluding items affecting comparability.	Adjusted operating profit is a key ratio for control of the units and provides a better understanding of earnings performance of the operations than the non-adjusted operating profit.

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

Non-IFRS performance measure	Description	Reason for use of the measure
Financial net margin	Net financial items divided by net sales.	This measure shows the relationship between net financial items and net sales.
Adjusted profit before tax	Calculated as profit before tax, excluding items affecting comparability.	This is a useful measure for showing total profit for the company including financing costs, but not affected by taxes and items that affect comparability with previous periods.
Adjusted tax	Tax expenses for the period adjusted for tax expenses relating to items affecting comparability.	A useful measure to show the total tax expense for the period, adjusted for taxes related to items affecting comparability.

SEKm	2019	2018	2017
ADJUSTED TAX			
Tax	–2,828	–1,050	–1,938
Tax relating to items affecting comparability	–159	–440	–253
Adjusted tax	**–2,987**	**–1,490**	**–2,191**

Non-IFRS performance measure	Description	Reason for use of the measure
Adjusted profit for the period	Profit for the period after deducting items affecting comparability.	Shows the period's total underlying earnings capacity excluding items affecting comparability.
Net margin	Profit for the period as a percentage of net sales for the year.	The net margin shows the remaining share of net sales after all of the company's costs, including income tax, have been deducted.
Earnings per share	Profit for the period attributable to owners of the Parent company divided by the number of shares outstanding.	Earnings per share is a good measure of the company's profitability and is used to determine the value of a company's outstanding shares.
Adjusted earnings per share	Adjusted earnings for the period attributable to owners of the Parent company, excluding amortization of acquisition-related intangible assets after tax divided by number of shares.	Adjusted earnings per share is a good measure of the company's profitability and is used to determine the value of a company's outstanding shares. The measure is a good complement to enable comparison of earnings per share with other companies, regardless of whether business activities are based on acquisitions or organic growth.

CASH FLOW PERFORMANCE MEASURES	Various performance measures and costs that have impacted the company's cash flow	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Cash earnings	Cash earnings consist of the net of operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA), financial income and expenses and income taxes.	A financial measure used when calculating the company's debt payment capacity, see page 66.
Adjusted cash earnings	Adjusted cash earnings consist of the net of adjusted operating profit before depreciation, amortization and impairment of property, plant and equipment and intangible assets (EBITDA), financial income and expenses and income taxes.	A financial measure used when calculating the company's debt payment capacity, see page 66.
Operating cash surplus	Calculated as operating profit with a reversal of depreciation, amortization and impairment of property, plant and equipment and intangible assets. Share of profits of associated companies and joint ventures, items affecting comparability and capital gains/losses are excluded.	This measure shows the cash flow generated by profit and is part of the follow-up of cash flow.
Investments in non-current assets, net	Investments in non-current assets, net, to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature and strategic investments in sites.	Shows the size of the capital expenditures required to maintain existing manufacturing capacity and investments in expansion and other growth measures.
Operating cash flow before investments in operating assets through leases	Consists of the sum of operating cash surplus and change in working capital, with deductions for net investments in non-current assets and restructuring costs.	This is an important control measure of operating activities that the units have control over themselves.
Investments in operating assets through leases	Additional right-of-use of assets directly attributable to operating activities. Mainly leases for distribution centers.	Investments in operating assets through leases is part of the follow-up of cash flow that the units have control over themselves.
Operating cash flow	Consists of the sum of operating cash surplus and change in working capital, with deductions for net investments in non-current assets and restructuring costs and investments in operating assets through leases.	This is an important control measure of operating activities that the units have control over themselves.
Investments in non-operating assets through leases	Additional right-of-use of assets that are not directly attributable to operating activities. Mainly leases for offices.	Investments through leases in non-operating assets that the units do not have control over themselves. These are recognized in the operating cash flow statement as a legend entry in changes to net debt.

SEKm	2019	2018	2017
OPERATING CASH FLOW			
Personal Care			
Operating cash surplus	8,785	7,821	7,238
Change in working capital	401	–410	–237
Investments in non-current assets, net	–1,866	–2,134	–2,073
Restructuring costs, etc.	–644	–271	–266
Operating cash flow before investments in operating assets through leases	6,676	5,006	4,662
Investments in operating assets through leases	–181		
Operating cash flow	**6,495**	**5,006**	**4,662**
Consumer Tissue			
Operating cash surplus	8,107	5,612	6,163
Change in working capital	–553	94	–425
Investments in non-current assets, net	–2,239	–3,073	–2,889
Restructuring costs, etc.	–251	–245	–139
Operating cash flow before investments in operating assets through leases	5,064	2,388	2,710
Investments in operating assets through leases	–194		
Operating cash flow	**4,870**	**2,388**	**2,710**
Professional Hygiene			
Operating cash surplus	6,589	5,630	5,649
Change in working capital	438	–565	73
Investments in non-current assets, net	–1,402	–1,337	–888
Restructuring costs, etc.	–603	–365	–592
Operating cash flow before investments in operating assets through leases	5,022	3,363	4,242
Investments in operating assets through leases	–84		
Operating cash flow	**4,938**	**3,363**	**4,242**

COMMENTS ON OPERATING CASH FLOW

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

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

B. SALES AND EARNINGS

B1. NET SALES – REVENUES FROM CONTRACTS WITH CUSTOMERS

AP KAA ACCOUNTING POLICIES AND KEY ASSESSMENTS AND ASSUMPTIONS

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

Revenue recognition

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

Performance obligations and timing of revenue recognition

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

Determination of transaction price

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

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

Trade receivables

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

Contract liabilities

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

Assets that have arisen from expenses to fulfill contracts with customers

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

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

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

B1. REVENUE FROM CONTRACTS WITH CUSTOMERS, CONT.

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

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

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Total, Group
2017[1]					
Revenue from contracts with customers					
Sale of finished products	40,580	42,014	26,696	–35	109,255
Sale of services	6		4		10
IS Total revenues from contracts with customers	**40,586**	**42,014**	**26,700**	**–35**	**109,265**
Geographic markets					
Europe	23,532	26,439	11,422		61,393
North America	4,200	38	12,122		16,360
Latin America	7,077	4,916	1,423		13,416
Asia	4,224	10,474	1,513		16,211
Other	1,553	147	220	–35	1,885
IS Total revenues from contracts with customers	**40,586**	**42,014**	**26,700**	**–35**	**109,265**
Product category					
Incontinence Products	17,885				17,885
Baby Care	8,906				8,906
Feminine Care	6,658				6,658
Medical Solutions	6,301				6,301
Consumer Tissue		42,014			42,014
Professional Hygiene			26,700		26,700
Other	836			–35	801
IS Total revenues from contracts with customers	**40,586**	**42,014**	**26,700**	**–35**	**109,265**

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

Trade receivables and contractual liabilities

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

Trade receivables decreased by SEK 135m compared with 2018 due to the divestment in Turkey but increased overall by SEK 1,177m in 2019 in line with rising sales. With reference to bonuses and discounts to customers in the comparative years 2018 and 2017, amounts were corrected compared with the annual accounts for 2018 by SEK +496m and SEK +428m, respectively. See Note D5 on page 88.

Assets that have arisen from expenses to fulfill contracts with customers

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

B2. SEGMENT REPORTING

AP ACCOUNTING PRINCIPLES

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

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

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

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

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

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

No business segments were aggregated to form the aforementioned segments.

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

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

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

B2. SEGMENT REPORTING, CONT.

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

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2017						
REVENUES						
IS TB2:2 **Net sales**	**40,586**	**42,014**	**26,700**	**–35**		**109,265**
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**5,937**	**4,084**	**4,004**	**–620**	**–**	**13,405**
Amortization of acquisition-related intangible assets	–506	–6	–48	–	–	–560
Adjusted operating profit/loss per operating segment	**5,431**	**4,078**	**3,956**	**–620**	**–**	**12,845**
TB2:1 Items affecting comparability	–457	135	–160	–458	–	–940
IS **Operating profit/loss**	**4,974**	**4,213**	**3,796**	**–1,078**	–	**11,905**
IS Financial income						158
IS Financial expenses						–1,340
IS Tax expense for the period						–1,938
IS **Profit for the period**						**8,785**
OTHER DISCLOSURES						
Assets	54,468	58,200	28,076	3,706	–5,407	139,043
BS Participations in joint ventures and associated companies	273	589	174	26	–	1,062
Unallocated financial assets	–	–	–	6,911	–	6,911
BS **Total assets**	**54,741**	**58,789**	**28,250**	**10,643**	**–5,407**	**147,016**
Investments/acquisitions	–28,118	–2,889	–888	–162	–	–32,057
Depreciation/amortization	–1,815	–2,134	–1,669	–106	–	–5,724
Expenses, in addition to depreciation/amortization, not matched by payments	48	21	67	–69	–	67
NET SALES BY REGION						
Europe	58%	63%	43%			56%
North America	10%	–	45%			15%
Latin America	18%	12%	5%			12%
Asia	10%	25%	6%			15%
Other	4%	–	1%			2%
Total	**100%**	**100%**	**100%**			**100%**
Mature markets	63%	56%	82%			65%
Emerging markets	37%	44%	18%			35%
Total	**100%**	**100%**	**100%**			**100%**

B2. SEGMENT REPORTING, CONT.

TB2:1 Items affecting comparability allocated by business segment

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other	Total
2019					
Items affecting comparability – cost of goods sold	–123	–62	–58	–	–243
Items affecting comparability – sales, general and administration	–222	–56	–30	–162	–470
Items affecting comparability – acquisition-related intangible assets	–	–	–	–	–
Total	**–345**	**–118**	**–88**	**–162**	**–713**
2018					
Items affecting comparability – cost of goods sold	–157	–812	–468	–	–1,437
Items affecting comparability – sales, general and administration	116	–248	–26	220	62
Items affecting comparability – acquisition-related intangible assets	–82	14	–	–1	–69
Total	**–123**	**–1,046**	**–494**	**219**	**–1,444**
2017					
Items affecting comparability – cost of goods sold	–272	81	–318	–	–509
Items affecting comparability – sales, general and administration	–102	54	160	–458	–346
Items affecting comparability – acquisition-related intangible assets	–83	–	–2	–	–85
Total	**–457**	**135**	**–160**	**–458**	**–940**

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

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

Customers: Essity had no customers in 2019, 2018 or 2017 from which it generated income that accounted for more than 10% of the company's net sales. Essity's ten largest customers account for 23.7% (23.6; 22.9) of the company's sales.

B2a. SEGMENT REPORTING, CONT.

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

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

B2b. SEGMENT REPORTING, CONT.

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

1) Information about non-current assets by country refers to intangible assets and property, plant and equipment according to Notes D1 and D2. As of 2019, also right-of-use assets are included, refer to Note G2 on page 105.
2) Adjustment of SEK 3,206m from Hungary to Germany for 2018.
3) Adjustment of SEK 13m from Croatia to Romania for 2017. SEK 805m was adjusted from Tunisia to South Africa and SEK 139m from Libya to Tunisia for 2017.

B3. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function

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

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

Operating expenses by type of cost

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

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

TB3:1 Items affecting comparability

Distribution of items affecting comparability by type of cost

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

Distribution of items affecting comparability

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

Distribution of items affecting comparability, previous periods

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

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

TB3:2 Other income

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

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

TB3:3 Distribution of other operating expenses

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

1) After deduction for revenues from energy in the amount of SEK 184m (327; 227).
2) As of 2019, leases are recognized in accordance with the new accounting standard IFRS 16 Leases, see Note G5 on page 107. This means that lease payments from 2019 are recognized as depreciation and interest expenses rather than lease of premises in IT, telephony and lease of premises, which is why the item has decreased.

Other disclosures

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

B4. AUDITING EXPENSES

Auditing expenses

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

B5. INCOME TAXES

AP ACCOUNTING PRINCIPLES

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

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

Deferred tax is calculated based on temporary differences between the carrying amounts and the taxable values of assets and liabilities and for tax loss carryforwards and other unutilized tax deductions in so far as it is probable that these can be utilized against future taxable profits. Deferred taxes are measured in the balance sheet at their nominal amount and based on the tax rates enacted or substantively enacted on the balance sheet date. Deferred tax is not calculated on the initial recognition of goodwill or when an asset or liability is recognized for the first time, provided that the asset or liability is not attributable to a business combination. Essity does not recognize any deferred tax liability regarding temporary differences on undistributed earnings from shares in subsidiaries, joint ventures or associated companies, since Essity can control the reversal of the temporary differences and it is probable that such a reversal will not take place in the foreseeable future.

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

Tax expense

Tax expense (+), tax income (–)

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

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

Explanation of tax expense

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

Tax expense

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

1) The effects are principally attributable to financing of the operations in the USA, Germany, France and Mexico. Year 2018 pertains to the financing effects concern the USA, Germany, France and Belgium. For 2017, the effects relate to financing of the US business and include non-recurring effects of the restructuring of debt from the Netherlands to the USA.

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

3) Other permanent effects primarily comprise BEAT effects in the USA of SEK 125m. For 2018 the effects relate to a non-deductible share in profit in Asaleo Care of SEK 97m primarily attributable to an impairment of assets, and dissolution effects of tax on non-current assets of SEK –57m. For 2017, the item includes non-deductible costs for tax on non-current assets of SEK 67m that arose in connection with the split of the SCA Group.

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

5) The change in value of deferred tax assets relates mainly to uncapitalized tax loss carryforwards in Brazil of SEK 109m and an increase in a tax credit in Poland of SEK –68m. For 2018 the effects relate mainly to uncapitalized tax loss carryforwards in Brazil of SEK 98m and in Mexico of SEK 41m, as well as the increase in a tax credit in Poland of SEK –109m. The change in 2017 relates mainly to the revaluation of loss carryforwards in the USA of SEK 139m and in Brazil of SEK 156m.

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

B5. INCOME TAXES, CONT.

Current tax liability

Current tax liability (+), current tax asset (–)

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

TB5:1 Tax by country

Tax expense (+), tax income (–)
Tax payments made by entities in different countries, paid tax (–), SEKm

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

1) The reallocation of tax liabilities took place between the US and the Netherlands, which led to an increase in current tax of SEK 936m in the Netherlands with the corresponding deferred tax income in the USA.
2) Payment received primarily refers to tax disputes where the final rulings were announced in Essity's favor in 2018.
3) Other countries comprise a large number of countries where the tax expense and tax payments for the respective countries are of a low amount.

TB5:2 Deferred tax liability

Deferred tax liability (+), deferred tax asset (–)

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

1) The net closing deferred tax liability comprises BS deferred tax assets of SEK 2,539m (2,158; 2,232) and BS deferred tax liabilities of SEK 6,545m (7,272; 7,090).
2) Other changes mainly include deferred tax recognized directly in other comprehensive income within equity according to IAS 19 Remuneration of employees of SEK 56m and IFRS 9 Financial instruments of SEK 173m.

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

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

Tax loss carryforwards

Tax credits and tax loss carryforwards for which deferred tax assets were recognized have been reported at the tax amount on the line Tax credits and tax loss carryforwards in TB5:2 in the amount of SEK –2,340m.

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

The change in uncapitalized tax loss carryforwards for the period includes SEK 47m that has expired and SEK 32m that was either utilized or capitalized. The tax value of uncapitalized tax loss carryforwards amounted to SEK 1,791m (1,748; 1,852). The expiry dates of these tax loss carryforwards are distributed as follows:

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

Year of maturity	2019	2018	2017
Within 1 year	90	48	325
2 years	62	305	136
3 years	53	17	67
4 years	99	100	28
5 years or more	1,108	1,499	1,143
Indefinite life	5,000	4,501	4,552
Total	**6,412**	**6,470**	**6,251**

C. EMPLOYEES

C1. PERSONNEL COSTS

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

Personnel costs

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

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

C2. REMUNERATION OF SENIOR EXECUTIVES

AP ACCOUNTING PRINCIPLES

Incentive programs

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

Description of incentive programs

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

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

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

Annual General Meeting guidelines for remuneration of senior executives[1]

The 2019 Annual General Meeting (AGM) adopted the following guidelines for remuneration of senior executives. Remuneration of senior executives will be a fixed salary, variable remuneration, additional benefits and pension. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession and linked to the executive's responsibility and authority. The variable remuneration is to be limited and linked to the fixed remuneration, based on performance results in relation to the annual and long-term established targets. In the event of termination of employment, the notice period should normally be up to two years if termination is initiated by the company, and up to one year, if initiated by the senior executive. Severance pay should not exist. Pension benefits should, to the extent possible, only contain defined contribution pension benefits and entitle the executive to receive a pension from the age of 65. Variable remuneration is not part of pensionable income. The board of directors shall be entitled to deviate from the adopted guidelines if, in an individual case, there are special reasons for doing so. The guidelines shall not prevail over mandatory conditions under labor law or collective agreements. Neither do they apply to existing agreements.

Company's application of guidelines

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

Fixed salary

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

Variable remuneration

Variable remuneration of the CEO, Executive Vice President and Business Unit Presidents and equivalents is maximized to a total of 100% of the fixed salary. For two Business Unit Presidents, stationed in the Americas, the maximum outcome is 110–130%. The corresponding limit for other senior executives is 90%. The program for variable remuneration is divided into short-term and long-term portions. The short-term portion ("Short Term Incentive", or STI) for the CEO, Executive Vice President and Business Unit Presidents and equivalents may amount to a maximum of 50% of fixed salary. For the Business Unit Presidents, stationed in the Americas, the maximum outcome is 60–80% of the fixed salary. The corresponding limit for other senior executives is 40%. The STI goals set for the Business Unit Presidents are mainly based on operating cash flow, capital efficiency, EBITA margin and organic sales growth for each business unit. The goal for the CEO and others reporting directly to him is based primarily on the Group's profit, EBITA margin, operating cash flow and organic sales growth. Furthermore, for certain senior executives, goals for cost efficiency and innovation also apply, accounting for 20% of the variable remuneration. The long-term portion ("Long Term Incentive", or LTI) may amount to a maximum of 50% of the fixed salary. The senior executive is to invest half of the variable LTI compensation, after tax withholdings, in Essity shares. The shares may then not be sold before the end of the third year after the purchase of shares in the relevant LTI program.

Outcome, variable remuneration

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

Other benefits

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

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

C2. REMUNERATION OF SENIOR EXECUTIVES, CONT.

TC2:1 Remuneration and other benefits during the year 2019

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

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

Pension costs 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.

Pension

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

Notice period and severance pay

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

Preparation and decision process for remuneration

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

The Board's proposal for new guidelines

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

TC2:1 Remuneration and other benefits during the year 2018

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

1) Variable remuneration covers the 2018 fiscal year but is paid in 2019.
2) Of which LTI program SEK 6,500,000.
3) Includes remuneration to the former Senior Vice President, Group Function Sustainability and Public Affairs, who as a result of the restructuring of the Group is no longer a member of the Executive Management Team.
4) Of which LTI program SEK 36,502,537.

Pension costs 2018[1]

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

1) The pension costs pertain to the costs that affected profit for 2018, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 19,933,280.
3) Outstanding pension obligations amount to SEK 80,261,840.

TC2:1 Remuneration and other benefits during the year 2017

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

1) Variable remuneration covers the 2017 fiscal year but is paid in 2018.
2) Of which LTI program SEK 6,000,000.
3) Of which LTI program SEK 27,962,950.

Pension costs 2017[1]

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

1) The pension costs pertain to the costs that affected profit for 2017, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 18,858,000.
3) Outstanding pension obligations amount to SEK 77,684,265.

Obligations in relation to former presidents and CEOs

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

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

Remuneration to non-executive Board members of Essity Aktiebolag (publ) refers to the fees approved at the AGM on April 4, 2019 for the period until the next AGM in April 2020. No renumeration is paid to the President and CEO and other employees.

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

C4. REMUNERATION AFTER EMPLOYMENT

AP ACCOUNTING PRINCIPLES

Defined benefit pension plans

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

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

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, meaning plans with assets exceeding obligations, are recognized as a financial non-current asset provided they are not limited by the "asset ceiling" under IAS 19. Other pension plans, which are not fully funded or unfunded, are recognized as Provisions for pensions.

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

Defined contribution pension plans

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

Other post-retirement benefits

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

Severance pay

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

The calculation of recognized expenses and provisions for defined benefit pension plans, where the size of the future compensation is unknown and payment will occur far in the future, is dependent on assumptions and assessments. Key assumptions and assessments include the discount rate, future salary increases, inflation and life expectancy. Essity determines the discount rate based primarily on AA-rated corporate bonds issued in the currency in which the payments will be made that match the duration of the obligations. If no such corporate bonds are available, government bonds or mortgage bonds are used. Inflation assumptions are based on a combination of central bank targets, implicit market expectations and long-term analyst forecasts. Assumptions regarding salary increases are based on market expectations and market research forecasts. Key actuarial assumptions are presented in TC4:5. The sensitivity of the recognized provision with respect to key actuarial assumptions is described in TC4:6.

C4. REMUNERATION AFTER EMPLOYMENT, CONT.

Provisions for pensions and similar obligations

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

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

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

TC4:1 Provisions for pensions and similar obligations per country

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

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

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

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

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

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

Costs for the period for defined benefit plans

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

C4. REMUNERATION AFTER EMPLOYMENT, CONT.

TC4:2 Defined benefit obligations

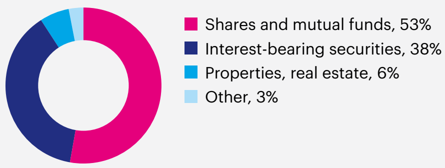
SEKm	2019	2018	2017
Value, January 1	**33,082**	**33,007**	**30,638**
Current service cost	540	601	575
Interest expense	895	811	858
Past service cost	–16	–36	–104
Pension-tax expense	36	33	32
Settlements and transfers	–293	–251	212
Acquisitions and divestments	–1	2	972
Benefits paid	–1,398	–1,445	–1,114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

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

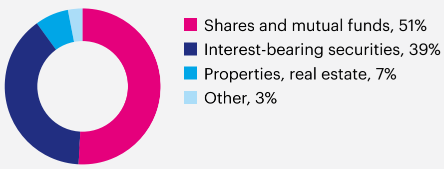
TC4:3 Plan assets

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

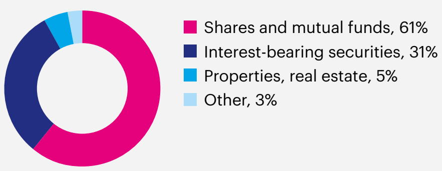
The plan assets are distributed according to the following classes of assets, 2019:



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



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



93% (92; 95) of the plan assets on the balance sheet date were traded on active markets in which market quotations are used for the valuation of assets. As in the preceding year, no financial instruments issued by Essity are included in the fair value of plan assets at December 31, 2019.

TC4:4 Effect of asset ceiling

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

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

TC4:5 Principal actuarial assumptions

	Sweden	UK	Germany	Netherlands	US
2019					
Discount rate	1.40	2.07	0.96	1.07	3.16
Expected salary increase rate	3.00	N/A	2.75	2.75	N/A
Expected inflation	2.00	3.00	1.50	1.50	N/A
Life expectancy, men[1]	22	22	20	21	20
Life expectancy, women[1]	25	24	24	24	22
2018					
Discount rate	2.26	2.72	1.87	1.94	4.30
Expected salary increase rate	3.25	N/A	3.00	3.00	N/A
Expected inflation	2.00	3.00	1.75	1.75	N/A
Life expectancy, men[1]	22	22	20	21	20
Life expectancy, women[1]	25	24	24	24	22
2017					
Discount rate	2.39	2.50	1.61	1.77	3.70
Expected salary increase rate	3.25	3.00	2.85	2.85	N/A
Expected inflation	2.00	3.00	1.60	1.60	N/A
Life expectancy, men[1]	22	22	19	22	20
Life expectancy, women[1]	25	24	23	24	22

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

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

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

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

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

MULTIEMPLOYER PLANS

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

Budgeted contributions

The budgeted contributions for the company's defined benefit pension plans for 2020 are calculated at SEK 1,016m. Contributions for multiemployer plans for 2020 are calculated at SEK 42m.

D. OPERATING ASSETS AND LIABILITIES

D1. INTANGIBLE ASSETS

AP ACCOUNTING PRINCIPLES

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

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

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

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

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

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

Emission allowances and costs for carbon dioxide emissions
Essity participates in the European system for emission allowances.

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

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

D1. INTANGIBLE ASSETS, CONT.

Goodwill

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

Intangible assets excluding goodwill

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

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

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. The testing showed that no impairment was needed for 2019, 2018 or 2017. The WACC before tax used in the impairment testing of goodwill is presented in the table below. Sensitivity analyses show that reasonable changes to key parameters do not give rise to any impairment requirement. In addition to annual impairment testing of the cash-generating units, outlined above under the section Impairment testing, goodwill, trademarks with indefinite useful lives and individual assets are also tested when there is an indication of an impairment need. During the period, intangible assets, mainly attributable to the operating segment Personal Care, were impaired by SEK –19m.

Distribution by operating segment

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

TD1:1 **Emission allowances**

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

D2. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Property, plant and equipment

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

Depreciation and impairment

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

Expected useful lives

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

Property, plant and equipment

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

1) Included primarily in Cost of goods sold.

Total property, plant and equipment

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

1) Included primarily in Cost of goods sold.

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

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

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

D3. INVENTORIES

AP ACCOUNTING PRINCIPLES

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

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

Inventories

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

Impairment of inventories amounted to SEK 78m (85; 47), of which SEK 70m (61; 4) was recognized in conjunction with restructuring as an item affecting comparability, refer to Note B3 Operating expenses on page 77.

D4. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2019	2018	2017
VAT receivables	702	999	891
Prepaid expenses and accrued income	568	542	496
Suppliers with debit balance	56	43	256
Receivables for electricity and gas	137	134	116
Receivables from authorities	90	75	85
Derivatives	20	324	208
Other receivables	540	482	497
BS Total	**2,113**	**2,599**	**2,549**

D5. OTHER LIABILITIES

Other liabilities

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

TD5:1 Accrued expenses and prepaid income[1)]

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

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

D6. OTHER PROVISIONS

AP ACCOUNTING PRINCIPLES

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

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

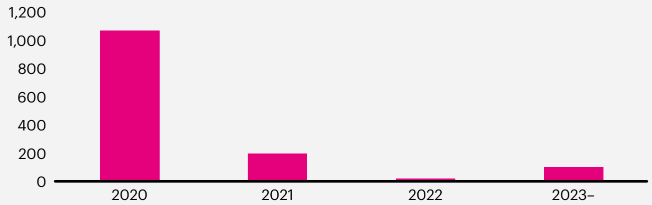
Other provisions 2019

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

Other provisions, previous periods

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

Distribution of other provisions by maturity[1)]



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

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

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

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

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

E. CAPITAL STRUCTURE AND FINANCING

E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL

AP ACCOUNTING PRINCIPLES

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

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

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

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

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

Fair value measurement

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

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

Classification and subsequent recognition in 2019 and 2018

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

Amortized cost

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

Fair value through comprehensive income

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

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

Fair value through profit or loss

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

Accounting for derivatives used for hedging purposes

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

Classification and subsequent recognition in 2017

In 2017, Essity classified it's financial instruments in accordance with IAS 39 in the following categories.

Financial assets measured at fair value through profit or loss

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

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

Held-to-maturity investments

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

Loan and trade receivables

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

Available-for-sale financial assets

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

Financial liabilities measured at fair value through profit or loss

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

Financial liabilities measured at amortized cost

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

Accounting for derivatives used for hedging purposes

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

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

Financial instruments by category and measurement level

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

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

Measurement levels

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

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

Financial instruments in other notes to the balance sheet

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

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

AP ACCOUNTING PRINCIPLES

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

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

Financial assets, cash and cash equivalents

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

Financial assets measured at fair value through other comprehensive income relate to an equity instrument which on transition to IFRS 9 was irrevocably classified in this category without any option of recirculation due to the long-term nature of the holding. The holding relates to shares in pension assets attributable to certain pension obligations. These assets are not included in the normal pension calculations, as set out in Note C4 Remuneration after employment on page 82. For 2017, this asset was recognized in Available-for-sale financial assets. Changes in value excluding exchange gains and losses are recognized in equity under other comprehensive income, while exchange gains and losses are recognized in profit or loss.

Cash and cash equivalents at December 31, 2019 include SEK 1,946m (2,260; 1,974) that is not fully available for use by Essity or for which other limitations exist, primarily cash and cash equivalents in countries that are subject to exchange restrictions and other legal restrictions. Accordingly, it is not possible to immediately use these cash and cash equivalents in other areas of the Group, although it is normally possible to use them in the operations of the respective country. The cash and cash equivalents can also be used to repay local debts in these countries. Such liabilities in these countries amounts to SEK 1,254m (1,045; 821).

E3. TRADE RECEIVABLES

AP KAA ACCOUNTING PRINCIPLES AND KEY ASSESSMENTS AND ASSUMPTIONS

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

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

Trade receivables

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

Credit risk in trade receivables

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

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

TE3:1 Analysis of credit risk exposure in trade receivables

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

Provision to reserves for doubtful receivables

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

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

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

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

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

Financial liabilities

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

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

Borrowing

Essity has a Euro Medium Term Note (EMTN) program with a program amount of EUR 6,000m (SEK 62,552m) for issuing bonds in the European capital market. As of December 31, 2019, a nominal EUR 3,134m (3,728; 4,188) was outstanding in public and bilateral issues with a remaining maturity of 3.8 years (4.2; 4.7).

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm	Interest rate, %
Notes EUR 500m	2021	5,242	5,251	0.50
Notes EUR 600m	2022	6,234	6,321	0.63
Notes EUR 500m	2023	5,532	5,600	2.50
Notes EUR 600m	2024	6,233	6,434	1.13
Notes EUR 300m	2025	3,271	3,219	1.13
Notes EUR 500m	2027	5,178	5,474	1.63
Total		**31,690**	**32,299**	

Non-current financial liabilities	Carrying amount, SEKm	Fair value, SEKm
Other non-current loans with maturities > 1 year < 5 years	7,944	8,005
Other non-current loans with maturities > 5 years	329	547
Total	**8,273**	**8,552**

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

Commercial paper program[1)]

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

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

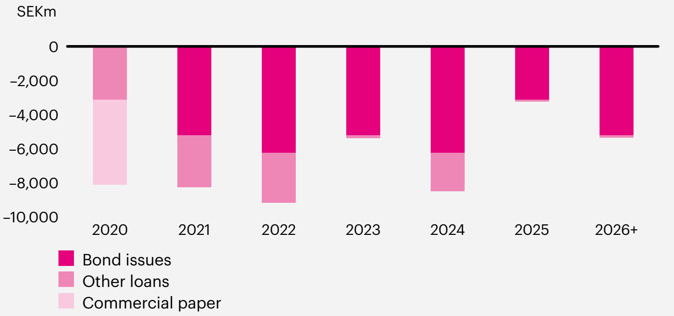
Essity has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. Contracted bilateral credit facilities with banks are used to supplement these syndicated bank facilities.

Credit facilities

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

1) The syndicated credit facility expiring in 2021 was refinanced in January 2020. The new credit facility falls due in 2025 and has the same nominal amount.
2) The syndicated credit facility expiring in 2024 was extended in January 2020 by EUR 941m until 2025. The remaining EUR 59m falls due in 2024.

Maturity profile of gross debt[1)]



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

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

E5. LIQUIDITY RISK

The table below shows the Group's liquidity risk regarding financial liabilities (including interest payments), net settled derivatives that constitute financial liabilities and negative cash flows from gross settled derivatives. For a description of the methods used by Essity to manage its liquidity risk, refer to the Risks and risk management section on page 39.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
2019				
Loans including interest	8,003	18,438	14,325	8,850
Net settled derivatives	0	0	–	–
Energy derivatives	254	42	–	–
Lease liabilities	864	1,213	767	1,520
Trade payables	15,795	7	–	–
Total	**24,916**	**19,700**	**15,092**	**10,370**
Gross settled derivatives[1)]	60,735	1,057	591	
2018				
Loans including interest	10,998	14,864	13,686	16,975
Net settled derivatives	0	0	0	–
Energy derivatives	22	8	–	–
Trade payables	15,786	125	–	–
Total	**26,806**	**14,997**	**13,686**	**16,975**
Gross settled derivatives[1)]	57,937	2,101	466	
2017				
Loans including interest	7,014	10,814	18,277	21,255
Net settled derivatives	–11	–22	–4	–
Energy derivatives	11	3	–	–
Trade payables	14,589	159	–	–
Total	**21,603**	**10,954**	**18,273**	**21,255**
Gross settled derivatives[1)]	65,401	1,921	1,414	–

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

E6. DERIVATIVES AND HEDGE ACCOUNTING

AP ACCOUNTING PRINCIPLES

Accounting for derivatives used for hedging purposes

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

Cash flow hedges

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

Hedges of net investments in foreign operations

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

Fair value hedges

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

Economic hedges

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

Outstanding derivatives

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

[1] Nominal SEK 64,183m (69,588; 100,661) is outstanding before the right of set-off.

Balance sheet

Essity uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how Essity manages these risks, refer to the section on Risk and risk management on page 34. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2019. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category and measurement level on page 89.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2019		
Gross amount	972	992
Offsettable amount	–1	–1
Net amount recognized in the balance sheet	971	991
ISDA agreements whose transactions are not offset in the balance sheet	–420	–420
Collateral paid	–	–26
Net after offsetting in accordance with ISDA agreements	**551**	**545**
December 31, 2018		
Gross amount	1,275	463
Offsettable amount	–20	–20
Net amount recognized in the balance sheet	1,255	443
ISDA agreements whose transactions are not offset in the balance sheet	–347	–347
Collateral received	–98	–
Net after offsetting in accordance with ISDA agreements	**810**	**96**
December 31, 2017		
Gross amount	1,669	706
Offsettable amount	–114	–114
Net amount recognized in the balance sheet	1,555	592
ISDA agreements whose transactions are not offset in the balance sheet	–471	–471
Net after offsetting in accordance with ISDA agreements	**1,084**	**121**

Income statement

Hedges pertaining to transaction exposure had an impact of SEK –16m (92; –106) on operating profit for the period. At year-end, the net market value amounted to SEK –17m (0; –9). Currency hedges increased the cost of non-current assets by SEK 14m (increased: 1; increased: 10). At year-end, the net market value amounted to SEK –3m (–1; 20). Energy derivatives had an impact of SEK –173m (396; 90) on operating profit for the period. Energy derivatives had an outstanding market value of SEK –282m (366; 225) at year-end. Derivatives impacted net interest items in an amount of SEK –381m (–362; –289). The net market value of outstanding interest rate derivatives amounted to SEK 545m (489; 413) at year-end. For further information relating to financial items, see Note E7 Financial income and expenses on page 96.

Sensitivity analysis

Essity has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2019 using assumptions on market movements that are regarded as reasonably possible in one year's time. If the Swedish krona had unilaterally weakened/strengthened by 5% against all currencies, outstanding financial hedges, trade payables and trade receivables would have decreased/increased profit for the period before tax by SEK 8m (7; 54).

If the Swedish krona had unilaterally weakened/strengthened by 5%, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 0m (0; 0). If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 174m (299; 214). In addition to the earnings impact, equity would have increased/decreased by SEK 90m (136; 120). However, the total energy cost for the Group would have been affected differently if the price risk related to supply contracts was taken into account.

Derivatives with hedge accounting

The various risk management strategies are presented in the Risks and risk management section on page 34. The derivatives to which hedge accounting is applied are presented below. Essity also continuously hedges the transaction exposure and energy price risks for the risks that are recognized in the balance sheet and income statement. Hedge accounting is not applied in respect of these risks. For currency derivatives, the revaluation from the risks meets derivatives in the financial positions. For energy derivatives, the result is recognized in profit or loss.

IFRS 9 provides the option of hedging risk components. In 2019, Essity did not utilize this option except for energy, where Essity in the Nordic region hedges the system price, which is a sub-component. The hedging ratio for the various risks for which hedge accounting is prepared is consistently 1:1.

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Cash flow hedges

Cash flow hedges for currency risk are prepared for transaction exposure, large investments and energy price risks in connection with purchases of electricity and gas. For cash flow hedges, hedges are prepared whereby critical terms match the hedged item. For the cash flow hedges prepared, this means that the change in fair value of the hedging instruments and the change in the hedged item are very highly correlated. Any ineffectiveness could, for example, be due to the time or the amount of the forecast cash flow mismatching with the cash flow of the derivative. In 2019, SEK 0m (0; 0) was recognized in profit or loss as ineffectiveness concerning the cash flow hedges. Currency derivatives mature in April 2021, while energy derivatives mature in December 2021.

Hedging of net investments

Essity has hedged net investments in a number of selected legal entities in order to achieve the desired currency distribution of net debt relative to assets so that key figures that are important to the company's credit rating can be protected in the long term. The result of hedging positions affected equity by a total of SEK –168m (–122; –1,968) during the year. This result is largely due to hedges of net investments in USD and EUR. In 2019, SEK 0m (0; 0) was recognized in profit or loss as ineffectiveness. The total market value of outstanding hedging transactions at the end of the period was SEK 124m (353; 170). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK –11,550m. Essity's total foreign net investments at year-end amounted to SEK 71,797m. Currency derivatives and loans in foreign currency are used to hedge net investments.

Fair value hedges

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

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

Interest rate derivatives – hedging of fair value, SEKm

					Line in the balance sheet		
Maturity date	**Nominal amount**	**Change in fair value, hedged item**	**Change in fair value, derivatives**	**Ineffectiveness**	**Financial assets**	**Financial liabilities**	**Variable interest**
2019							
Non-current derivatives							
2021	5,213	–11	11	0	33	–	Euribor 6m +0.5502–0.5527
2022	127	3	–3	0	3	0	Euribor 3m +0.698
2023	4,170	8	–13	–5	343	–	Euribor 6m +0.7215–0.73165
2025	3,128	–71	73	2	147	–	Euribor 6m +0.514–0.5168
	12,638	**–71**	**68**	**–3**	**526**	**0**	
2018							
Current derivatives							
2019	900	7	–7	0	6	–	Stibor +0.506
Non-current derivatives							
2020	3,083	4	–4	0	29	–	Euribor 6m +0.2827–0.2829
2021	5,139	–35	34	–1	22	–	Euribor 6m +0.5502–0.5527
2022	180	3	–3	0	6	0	Euribor 3m +0.698
2023	4,111	–13	6	–7	355	–	Euribor 6m +0.7215–0.73165
2025	3,083	–45	45	0	71	–	Euribor 6m +0.514–0.5168
	16,496	**–79**	**71**	**–8**	**489**	**0**	
2017							
Non-current derivatives							
2019	900	–2	2	0	12	–	Stibor +0.506
2020	2,952	–6	7	1	33	–	Euribor 6m +0.2827–0.2829
2021	4,920	–10	12	2	–	12	Euribor 6m +0.5502–0.5527
2022	226	–4	4	0	9	–	Euribor 3m +0.698
2023	3,936	–80	114	34	346	–	Euribor 6m +0.7215–0.73165
2025	2,952	–40	35	–5	25	–	Euribor 6m +0.514–0.5168
	15,886	**–142**	**174**	**32**	**425**	**12**	

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Derivatives with hedge accounting[1]

SEKm	Asset	Liability	Net	Tax	Hedge reserve after tax	Recirculated before tax	Line in the income statement/balance sheet
2019							
Derivatives with hedge accounting in hedge reserve							
Cash flow hedges							
Energy risk	10	–272	–262	58	–204	112	3)
Currency risk	1	–4	–3	1	–2	14	4)
Total	**11**	**–276**	**–265**	**59**	**–206**		
Derivatives with hedge accounting without hedge reserve							
Hedges of net investments in foreign operations							
Currency risk[2]	68	–87	–19				
Fair value hedges							
Interest rate risk	526		526				
Total	**605**	**–363**	**242**	**59**	**–206**		
2018							
Derivatives with hedge accounting in hedge reserve							
Cash flow hedges							
Energy risk	347	–25	322	77	245	–377	3)
Currency risk	3	–4	–1	0	0	–	4)
Total	**350**	**–29**	**321**	**77**	**245**		
Derivatives with hedge accounting without hedge reserve							
Hedges of net investments in foreign operations							
Currency risk[2]	143	–15	128				
Fair value hedges							
Interest rate risk	489		489				
Total	**982**	**–44**	**938**	**77**	**245**		
2017							
Derivatives with hedge accounting in hedge reserve							
Cash flow hedges							
Energy risk	216	–14	202	–50	152	–69	3)
Currency risk	33	–15	18	–4	14	23	4)
Total	**249**	**–29**	**220**	**–54**	**166**		
Derivatives with hedge accounting without hedge reserve							
Hedges of net investments in foreign operations							
Currency risk[2]	60	–230	–170				
Fair value hedges							
Interest rate risk	425	–12	413				
Total	**734**	**–271**	**463**	**–54**	**166**		

1) Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives.
2) Derivatives before offsetting.
3) Cost of goods sold.
4) Cost of goods sold, Net sales and Property, plant and equipment.

The results from hedging of net investments in foreign operations are recognized in the translation reserve, refer to Note E8 Equity on page 96. The results from fair value hedges are recognized directly in profit or loss.

Hedge reserve in equity

Currency derivatives relating to hedging of transaction exposure mature mainly during the first quarter of 2020. With unchanged exchange rates, profit after tax will be affected in an amount of SEK 0m (0; neg. 1). Currency derivatives relating to hedging of the cost of non-current assets have a maturity spread until April 2021. With unchanged exchange rates, the cost of non-current assets will increase by SEK 2m (increase by 1; decrease by 15) after tax. The derivatives intended to hedge energy costs in the Group mature during 2020 and 2021. With unchanged prices, the Group's profit after tax will be affected negatively in an amount of SEK 204m (pos. 245; pos. 152).

E7. FINANCIAL INCOME AND EXPENSES

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

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

Sensitivity analysis

If interest rate levels had been 1 percentage point higher/lower, with unchanged fixed-interest terms and volumes in the net debt, interest expenses for the period would have been SEK 116m (123; 83) higher/lower. Sensitivity analysis calculations have been performed on the risk to which Essity was exposed at December 31, 2019 using assumptions on market movements that are regarded as reasonably possible in one year's time.

For a description of the methods used by Essity to manage its interest rate risk, refer to the Risks and risk management section on page 34.

E8. EQUITY

AP ACCOUNTING PRINCIPLES

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

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

Equity totaled SEK 62,801m (54,899; 49,570) at December 31, 2019. The following tables show the distribution and profit for the period.

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

E8. EQUITY, CONT.

SEKm	Share capital	TE8:1 Reserves	Retained earnings	Equity attributable to Essity's shareholders	Non-controlling interests	Total equity
Value, January 1, 2018	**2,350**	**3,154**	**36,785**	**42,289**	**7,281**	**49,570**
Effect of changed accounting principle IFRS 9			**–7**	**–7**		**–7**
IS Profit for the period			**7,886**	**7,886**	**666**	**8,552**
Other comprehensive income for the period						
Items that may not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans[1]			–1,038	–1,038	2	–1,036
Fair value through comprehensive income		–5		–5		–5
TE8:2 Income tax attributable to components in other comprehensive income		1	175	176		176
		–4	**–863**	**–867**	**2**	**–865**
Items that have been or may be reclassified subsequently to the income statement						
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		471		471		471
Transferred to profit or loss for the period		–378		–378		–378
Translation differences in foreign operations		1,876		1,876	204	2,080
Gains/losses from hedges of net investments in foreign operations		–122		–122		–122
Other comprehensive income from associated companies			23	23		23
TE8:2 Income tax attributable to components in other comprehensive income		5	–1	4		4
Other comprehensive income for the period, net of tax		**1,848**	**–841**	**1,007**	**206**	**1,213**
CI Total comprehensive income for the period		**1,848**	**7,045**	**8,893**	**872**	**9,765**
Private placement to non-controlling interests			3	3	2	5
Transferred to cost of hedged investments		1		1		1
CF OCF Dividend, SEK 5.75 per share [2]			–4,038	–4,038	–397	–4,435
BS Value, December 31	**2,350**	**5,003**	**39,788**	**47,141**	**7,758**	**54,899**
Value, January 1, 2017	**0**	**4,061**	**29,143**	**33,204**	**6,376**	**39,580**
IS Profit for the period			**8,116**	**8,116**	**669**	**8,785**
Other comprehensive income for the period						
Items that may not be reclassified to the income statement						
Actuarial gains/losses on defined benefit pension plans[1]			1,065	1,065	–4	1,061
TE8:2 Income tax attributable to components in other comprehensive income			–218	–218	–	–218
			847	**847**	**–4**	**843**
Items that have been or may be reclassified subsequently to the income statement						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity				0		0
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		35		35		35
Transferred to profit or loss for the period		–56		–56		–56
Transferred to cost of hedged investments		10		10		10
Acquired cash flow hedges		4	–4	–		–
Translation differences in foreign operations		628		628	–308	320
Gains/losses from hedges of net investments in foreign operations		–1,968		–1,968		–1,968
Other comprehensive income from associated companies			–22	–22		–22
TE8:2 Income tax attributable to components in other comprehensive income		440	–1	439		439
Other comprehensive income for the period, net of tax		**–907**	**820**	**–87**	**–312**	**–399**
CI Total comprehensive income for the period		**–907**	**8,936**	**8,029**	**357**	**8,386**
Bonus issue	2,350		–2,350	–		–
Private placement to non-controlling interests			504	504	465	969
Private placement to non-controlling interests, dilution			–290	–290	290	–
Acquisition of non-controlling interests				–	78	78
Transactions with shareholders			842	842	–	842
CF OCF Dividend to non-controlling interests				–	–285	–285
BS Value, December 31	**2,350**	**3,154**	**36,785**	**42,289**	**7,281**	**49,570**

1) Including payroll tax.
2) Dividend of SEK 5.75 per share pertains to owners of the Parent company. For the 2019 fiscal year, the Board of Directors has decided to propose a divided of SEK 6.25 per share to the Annual General Meeting.

E8. EQUITY, CONT.

TE8:1 Equity, specification of reserves

	Revaluation reserve[1]			Hedge reserve[2]			Available-for-sale assets			Fair value through comprehensive income			Translation reserve		
SEKm	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Value, January 1	**107**	**107**	**107**	**245**	**166**	**164**	**–**	**6**	**6**	**4**	**–**		**4,647**	**2,875**	**3,784**
Reclassification								–6			6				
Fair value through comprehensive income										6	–5				
Cash flow hedges:															
Result from remeasurement of derivatives recognized in equity				–725	471	35									
Transferred to profit or loss for the period				112	–378	–56									
Transferred to cost of hedged investments				–	–	10									
Acquired cash flow hedges						4									
Translation differences in foreign operations[3]				10	6	2				–	2		1,859	1,868	626
Gains/losses from hedges of net investments in foreign operations													–168	–122	–1,968
Tax on items recognized directly in/transferred from equity				138	–21	7				–2	1		37	26	433
Other comprehensive income for the period, net of tax	**–**	**–**	**–**	**–465**	**78**	**2**	**–**	**–6**	**–**	**4**	**4**		**1,728**	**1,772**	**–909**
Transfer to cost of fixed assets concerning hedged investments, net of tax				14	1										
Value, December 31	**107**	**107**	**107**	**–206**	**245**	**166**	**–**	**–**	**6**	**8**	**4**		**6,375**	**4,647**	**2,875**

1) Revaluation reserve includes effect on equity of step acquisitions.
2) See also Note E6 Derivatives and hedge accounting on page 93 for details of when gains or losses are expected to be recognized.
3) Transfer to profit or loss of realized translation difference relating to divested and liquidated companies is included in the amount of SEK –178m (0; –19).

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

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

At December 31, 2019, the debt/equity ratio amounted to 0.81 (0.99; 1.06). Changes in liabilities and equity are described in the Financial position section on page 33. Essity's target for capital structure is to establish an effective capital structure, while at the same time ensuring long-term access to loan financing. Cash flow in relation to net debt is to be taken into consideration with the aim of maintaining a solid investment grade rating.

Essity has a credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. Essity's financial risk management is described in the Risk and risk management section on page 34. The Essity share section on page 6 outlines Essity's dividend policy, while its capital structure is described in the Objectives, targets and outcomes section on page 18.

Transactions with shareholders

Specification of transactions with shareholders

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

F. GROUP STRUCTURE

F1. GROUP COMPANIES

AP ACCOUNTING PRINCIPLES

Group companies
The companies over which Essity has control are consolidated as Group companies. Control means that Essity has sufficient influence to control the activities of the Group company, has the right to its returns, has control over its exposure and is able to impact the return of the company through its influence. Most of the Group's companies are wholly owned, which means that Essity has control over the companies. Essity owns 52% of Vinda, 50% of Familia and 49% of Sancella Tunisia and Unicharm Mölnlycke, over which Essity also has control.

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

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

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2019	Share of equity at December 31, 2018	Share of equity at December 31, 2017
Essity France SAS	509 395 109	Saint-Ouen, France	100	100	100
Essity Holding Netherlands B.V.	30-135 724	Zeist, Netherlands	100	100	100
Essity UK Ltd.	577 116	Dunstable, UK	100	100	100
Essity Professional Hygiene North America LLC	58-2494137	Delaware, USA	100	100	100
Vinda International Holdings Ltd[1)]	90235	Hong Kong, China	52	52	52
Essity Operations Wausau LLC	41-2218501	Wisconsin, USA	100	100	100
Essity Germany GmbH	HRB 713 332	Mannheim, Germany	100	100	100
Essity Hygiene and Health AB	556007-2356	Gothenburg, Sweden	100	100	100
Essity Spain S.L.	B28451383	Puigpelat, Spain	100	100	100
Essity Higiene y Salud Mexico, S.A. de C.V.	SCM-931101-3S5	Mexico City, Mexico	100	100	100
Productos Familia S.A. Colombia[1)]	8909001619	Medellin, Colombia	50	50	50
Productos Familia del Sancela Ecuador S.A.[1)]	179131437900	Quito, Ecuador	50	50	50
Productos Sancela del Peru [1)]	20255172884	Lima, Peru	50	50	25
Essity Italy S.p.A.	3 318 780 966	Altopascio, Italy	100	100	100
Essity LLC	1024700877200	Moscow, Russia	100	100	100
Essity Poland Sp.z.o.o.	KRS No. 0000427360	Warsaw, Poland	100	100	100
Essity Austria GmbH	FN 49537 z	Vienna, Austria	100	100	100
Essity Belgium SA-NV	BE0405.681.516	Stembert, Belgium	100	100	100
Essity Professional Hygiene Germany GmbH	HRB 710 878	Mannheim, Germany	100	100	100
Essity Canada Inc.	421984	Ontario, Canada	100	100	100
OY Essity Finland AB	0165027-5	Espoo, Finland	100	100	100
Essity HMS North America Inc.	23-3036384	Delaware, USA	100	100	100
Essity Norway AS	915 620 019	Oslo, Norway	100	100	100
Essity Switzerland AG	CH-020.3.917.992-8	Schenkon, Switzerland	100	100	100
Essity Denmark A/S	DK20 638 613	Allerød, Denmark	100	100	100
Essity Chile SA	94.282.000-3	Santiago de Chile, Chile	100	100	100
Essity Hungary Kft	01-09-716945	Budapest, Hungary	100	100	100
Uni-Charm Mölnlycke KK	0104-01-046146	Tokyo, Japan	49	49	49
Essity Czech Republic s.r.o.	485 36 466	Prague, Czech Republic	100	100	100
Essity Operations Allo SL	B31235260	Allo, Spain	100	100	100
Essity Slovakia s.r.o.	36590941	Gemerska Horska, Slovakia	100	100	100
Essity Operations Mainz-Kostheim GmbH	HRB 5301	Mainz-Kostheim, Germany	100	100	100
Essity Operations France SAS	702 055 187	Saint-Ouen, France	100	100	100
Essity Operations Mannheim GmbH	HRB 3248	Mannheim, Germany	100	100	100
Essity Operations Neuss GmbH	HRB 14343	Neuss, Germany	100	100	100
Essity Operations Poland Sp.z.o.o.	KRS No. 0000086815	Olawa, Poland	100	100	100
Essity Operations Le Theil SAS	509 599 619	Saint-Ouen, France	100	100	100
Essity Operations Manchester Ltd	4119442	Dunstable, UK	100	100	100
BSN medical GmbH	HRB 124 187	Hamburg, Germany	100	100	100
BSN Radiante SAS	652 880 519	Le Mans, France	100	100	100
BSN Medical Distribution Limited	04381725	Willerby, UK	100	100	100
BSN Medical Inc.	3269728	North Carolina, USA	100	100	100
BSN-Jobst GmbH	HRB 3482	Emmerich, Germany	100	100	100
Essity Canary Islands, SL (Sociedad Unipersonal)	B35089242	Telde, Spain	100	100	100
Essity Hijyen Ürünleri Sanayi ve Ticaret A.S.	640954	Istanbul, Turkey	100	100	100
Essity Centroamérica S.A.	3-101-211115	San José, Costa Rica	100	100	100
Sancella S.A.	B14561997	Tunis, Tunisia	49	49	49
Essity do Brasil Indústria e Comércio Ltda.	72.899.016/0001-99	Jarinu, Brazil	100	100	100

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

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

Vinda

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

Familia

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

Financial information

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

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

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

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

1) For more information about the companies, refer to the list of major Group companies on page 99.
2) For Familia, items affecting comparability in the amount of SEK 25m (41; 52) are included.
3) Net sales have been adjusted for Familia.
4) Net sales, operating profit before amortization of acquisition-related intangible assets, profit for the period and other comprehensive income for the period have been adjusted for Familia.
5) Other comprehensive income and comprehensive income for the period have been adjusted for Vinda in 2018.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES

AP ACCOUNTING PRINCIPLES

Joint arrangements

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

Joint ventures

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

Associated companies

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

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

F3. JOINT VENTURES AND ASSOCIATED COMPANIES, CONT.

Carrying amounts of joint ventures and associated companies

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

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

Joint ventures and associates

Asaleo Care Ltd

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

Essity's share of Asaleo Care amounted to 36.2%. In 2018, the company recognized an impairment loss of AUD 148.5m relating to assets in the Tissue business in Australia and the Personal Care business in New Zealand. During 2019, the company divested Consumer Tissue operations in Australia. Essity has recognized these transactions as items affecting comparability, see Note B3 on page 77.

Bunzl & Biach

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

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

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

1) Amounts pertaining to 2018 have been restated in line with Asaleo's separate recognition of the divested Consumer Tissue operations in Australia.
2) Amounts pertaining to the 2017 income statement have been restated in line with Asaleo's separate recognition of the divested Consumer Tissue operations in Australia.

F3. JOINT VENTURES AND ASSOCIATED COMPANIES, CONT.

TF3:2 **Carrying amounts of joint ventures and associated companies**

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

F4. JOINT OPERATIONS

AP ACCOUNTING PRINCIPLES

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

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

Joint operations

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2019	Share of equity at December 31, 2018	Share of equity at December 31, 2017
Uni-Charm Mölnlycke B.V.	02-330 631	Hoogezand, Netherlands	40	40	40
ProNARO GmbH	HRB 8744	Stockstadt, Germany	50	50	50
Nokianvirran Energia Oy (NVE)	213 1790-4	Kotipakka, Finland	27	27	27

Uni-Charm Mölnlycke

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

ProNARO

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

Nokianvirran Energia

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

F5. SHARES AND PARTICIPATIONS

AP ACCOUNTING PRINCIPLES

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

Shares and participations

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

F6. ACQUISITIONS AND DIVESTMENTS OF GROUP COMPANIES AND OTHER OPERATIONS

AP ACCOUNTING PRINCIPLES

Acquisition of Group companies and other operations

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

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

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

Non-controlling interests

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

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

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

Acquisitions in 2019

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

Acquisitions in 2018

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

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

Acquisitions in 2017

On December 19, 2016, it was announced that an agreement to acquire BSN medical, a leading medical technology company, had been concluded. BSN medical develops, manufactures, markets and sells products within the areas of wound care, compression therapy and orthopedics. The purchase price for the shares amounts to EUR 1,394m, and takeover of net debt to EUR 1,321m. The acquisition is fully debt-funded. The transaction, which was subject to customary regulatory approvals, was closed on April 3, 2017. Goodwill is justified by the synergies that arise as a result of BSN medical's leading market positions in attractive medical technology product categories, which create a shared future growth platform in combination with Essity's incontinence business, including the globally leading brand TENA. Furthermore, synergies are generated by being able to utilize a common customer base and sales channels for both businesses, enabling more rapid growth through cross selling. In 2017, restructuring costs amounted to SEK 96m and integration costs to SEK 48m. Costs for the acquisition amounted to SEK 229m, of which SEK 86m was recognized in 2017 and SEK 143m in 2016.

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

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

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

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

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

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

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

Acquired operations

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

Acquisition balance sheets

SEKm	2019	2018	2017
Intangible assets	–	77	13,472
Property, plant and equipment	–	381	1,351
Other non-current assets	3	1	333
Operating assets	–	313	3,286
Cash and cash equivalents	–	26	498
Provisions and other non-current liabilities	–	–45	–4,278
Net debt excl. cash and cash equivalents	–	–233	–13,042
Operating liabilities	–	–134	–1,352
Fair value of net assets	**3**	**386**	**268**
Goodwill	–	311	13,290
Consolidated value of share in associated companies	–	–8	–8
Revaluation of previously owned shares in associated companies	–	–225	–72
Non-controlling interests	–	–	–78
Consideration transferred	**3**	**464**	**13,400**
Consideration transferred	–3	–464	–13,400
Earn-out payment	–22	–	–
Settled debt pertaining to acquisitions in earlier years	–118	–23	–108
Cash and cash equivalents in acquired companies	–	26	498
Settled financial liability pertaining to acquisitions in earlier years	–	–	–62
CF Effect on Group's cash and cash equivalents, acquisition of operations	**–143**	**–461**	**–13,072**
of which recognized as acquisitions of holdings in Investing activities	–143	–461	–13,070
of which recognized as acquisitions of non-controlling interests in Financing activities	–	–	–2
Purchase consideration settled/entered as liability	–	–	7
Acquired net debt excl. cash and cash equivalents	–	–233	–13,042
Settled financial liability pertaining to acquisitions in earlier years	–	–	62
OCF Acquisition of operations during the period, including net debt assumed	**–143**	**–694**	**–26,045**

Divestments of Group companies and other operations

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

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

Assets and liabilities included in divestments

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

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

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE

AP ACCOUNTING PRINCIPLES

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

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

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

Non-current assets held for sale and discontinued operations

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

Non-current assets held for sale are attributable to:

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

G2. LEASES

AP ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

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

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

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

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

G2. LEASES, CONT.

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

TG2:1

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

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

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

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

G3. CONTINGENT LIABILITIES AND PLEDGED ASSETS

AP ACCOUNTING PRINCIPLES

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

Contingent liabilities

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

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

Pledged assets

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

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

G4. TRANSACTIONS WITH RELATED PARTIES

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

Purchases from Forest Products related primarily to pulp used in Essity's manufacturing process. Pricing between units has adhered to the transfer pricing policy that applied at the SCA Group. The financial income was attributable to the internal bank's lending to Forest Products.

Transactions in the form of lending and reallocation of net debt have been classified as transactions with shareholders in equity, refer to Note E8 Equity on page 96.

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

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

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

TG4:1 Transactions with SCA

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

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

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

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

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

G5. CHANGES DUE TO NEW ACCOUNTING RULES

IFRS 16 Leases

When the new standard came into effect on January 1, 2019, Essity chose to apply the modified retrospective approach, entailing an adjustment of the opening balance with the cumulative effect of initially applying the standard on the first date of initial application. Comparative years were not be restated. Upon transition on January 1, 2019, the lease liability was measured at the outstanding lease payments during the remaining lease term and the right-of-use asset for all leases totaled an amount corresponding to the lease liability, adjusted for any prepaid lease payments and accrued lease payments recognized on December 31, 2018. For onerous leases, Essity has chosen to apply the simplification rule to adjust the value of the right-of-use asset downward in an amount that in the 2018 year-end accounts was recognized as non-current and current provisions relating to onerous leases in accordance with IAS 37. This practical solution was chosen as an alternative to performing impairment testing in conjunction with the transition to IFRS 16. Only marginal reclassifications took place concerning provisions for onerous leases and accrued and prepaid lease payments. An incremental borrowing rate has been set by currency. The average incremental borrowing rate on January 1, 2019 was approximately 3%. The transition did not have any impact on equity.

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

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

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

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

SEKm	
Operating future minimum lease payments, December 31, 2018, according to Note G2 on page 105 in the Annual and Sustainability Report 2018	3,967
Present-value calculated with the Group's incremental borrowing rate at January 1, 2019	–486
Excluding short-term leases and leases with a low value	–10
Renewal options that are expected to be utilized	213
Lease liability at January 1, 2019 according to the Annual and Sustainability Report 2018	**3,684**
Adjustment of lease liability after the publication of the Annual and Sustainability Report 2018	102
Adjusted lease liability at January 1, 2019	**3,786**

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

Financial statements, Parent Company

Income statement IS

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

Statement of comprehensive income

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

Cash flow statement CF

SEKm	2019	2018
Operating activities		
Profit after financial items	4,098	17,102
Adjustment for non-cash items T:1	536	1,893
Paid tax	–7	0
Cash flow from operating activities before changes in working capital	**4,627**	**18,995**
Change in operating receivables	650	45,190
Change in operating liabilities[1]	–71	–47,967
Cash flow from operating activities	**5,206**	**16,218**
Investing activities		
Acquisition of subsidiaries	–826	–7,007
Acquisition of fixed assets	–14	–1
Cash flow from investing activities	**–840**	**–7,008**
Financing activities		
Loans raised	4,265	2,000
Amortization of debt	–4,592	–7,172
Dividend paid	–4,039	–4,038
Cash flow from financing activities	**–4,366**	**–9,210**
Cash flow for the period	**0**	**0**
Cash and cash equivalents, January 1	0	0
Cash and cash equivalents, December 31[2]	0	0

T:1 Adjustment for non-cash items	2019	2018
Depreciation of fixed assets	2	2
Change in accrued items	549	1,870
Impairment of shares in subsidiaries	–	53
Payments relating to efficiency program already recognized	–3	–
Change in provisions	–12	–32
Total	**536**	**1,893**

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

Change in liabilities attributable to financing activities

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

Balance sheet BS

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

Change in equity (Refer also to Note PC12)

SEKm	Share capital	Statutory reserve	Retained earnings and profit for the period	Total equity
Equity at December 31, 2017	**2,350**	**0**	**75,735**	**78,085**
Profit for the period			16,162	16,162
Dividend, SEK 5.75 per share		–	–4,038	–4,038
Equity at December 31, 2018	**2,350**	**0**	**87,859**	**90,209**
Profit for the period			4,122	4,122
Dividend, SEK 5.75 per share			–4,039	–4,039
Equity at December 31, 2019	**2,350**	**0**	**87,942**	**90,292**

PC. PARENT COMPANY NOTES

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

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

The same accounting principles are usually applied in both the Parent Company and the Group. In some cases, the Parent Company applies principles other than those used by the Group and, in such cases, these principles are specified under the respective note in the section about the Parent Company.

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

PC2. OPERATING PROFIT/LOSS

Operating profit/loss by type of cost

SEKm	Note	2019	2018
Other operating income		209	192
Other external costs		–302	–396
Personnel and Board costs		–359	–340
Amortization of capitalized development costs	PC5	–	0
Depreciation of equipment	PC6	–2	–2
IS **Total**		**–454**	**–546**

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

AUDITING EXPENSES

Remuneration to auditors can be specified as follows:

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

Leasing

AP ACCOUNTING PRINCIPLES

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

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

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

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

PC3. PERSONNEL AND BOARD COSTS

Salaries and remuneration

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

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

Social security costs

SEKm	2019	2018
Total social security costs	–141	–147
of which pension costs[2)]	–75	–89

2) Of the Parent Company's pension costs, SEK –14m (–14) pertains to the Board, President, Executive Vice President and senior executives. Former Presidents and Executive Vice Presidents and their survivors are also included. The company's outstanding pension obligations to these individuals amount to SEK 59m (46).

Pension costs

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

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK –2m (–2). Premiums for 2020 are expected to amount to SEK 2m, see also Provisions for pensions in this note. Personnel costs also include other personnel costs in the amount of SEK –4m (–8).

PC3. PERSONNEL AND BOARD COSTS, CONT.

Average number of employees

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

Breakdown of employees by age groups, %

2019	21–30 years	31–40 years	41–50 years	51–60 years	61– years
	3	21	39	29	8

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

Provisions for pensions

AP ACCOUNTING PRINCIPLES

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

PRI Pensions

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

Other pension obligations

The Group's Note C2 Remuneration of senior executives on page 80 describes the other defined benefit pension plans of the Parent Company. The table below shows the change between the years.

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

SEKm	2019	2018
Value, January 1	**873**	**878**
Costs excluding interest expense	52	38
Interest expense (recognized in personnel costs)	6	5
Payment of pensions	–56	–48
BS **Value, December 31**	**875**	**873**

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 0.7% (0.6). The defined benefit obligations are calculated based on salary levels valid on the respective balance sheet dates. Next year's expected payments for the above defined benefit pension plans amount to SEK 52m. Part of the pension obligations are covered by capital redemption policies. The capital redemption policies are reported as other non-current receivables in the balance sheet.

PC4. INCOME TAXES

AP ACCOUNTING PRINCIPLES

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

Tax expense

Tax expense (+), tax income (–)

SEKm	2019	2018
Deferred tax	–27	940
Current tax	0	–
IS **Total**	**–27**	**940**

Explanation of tax expense

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

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

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

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

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

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

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

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

Deferred tax assets (–)

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

Appropriations and untaxed reserves

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

PC5. INTANGIBLE ASSETS

Capitalized development costs

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

PC6. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

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

Equipment

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

PC7. PARTICIPATIONS IN SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

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

Participations in subsidiaries

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

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

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

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOBOF	556047-8520	Stockholm, Sweden	1,000	100	0.1
Essity Försäkringsaktiebolag	516401-8540	Stockholm, Sweden	140,000	100	14.0
Essity TC AB	556643-7298	Stockholm, Sweden	1,000	100	826.1
Foreign subsidiaries:					
Essity Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	174,328.1
Essity Italy S.p.A	3318780966	Capannori, Italy	125,000	25	279.2
SCA Hygiene Products India Private Limited	U17253MH2012FTC231579	Mumbai, India	5,701,945	2.17	0.1
Total carrying amount of subsidiaries					**175,448**

German Group companies that are subject to disclosure exemptions

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

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

PC9. OTHER CURRENT RECEIVABLES

Other current receivables

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

PC10. FINANCIAL INSTRUMENTS

AP ACCOUNTING PRINCIPLES

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

Financial items

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

1) Dividends in 2018 include the gain from the liquidation of Essity Capital NV totaling SEK 7,207m.
2) The item other financial expenses includes financial fees and exchange rate differences. Exchange rate differences amounted to SEK –1m (6), net.

Interest-bearing liabilities

Non-current interest-bearing liabilities

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

Current interest-bearing liabilities

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

Bond issues

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

Financial instruments by category

AP ACCOUNTING PRINCIPLES

In 2019, the categories of financial instruments in the Parent company comprised in accordance with IFRS 9 financial assets and liabilities measured at fair value through profit or loss and amortized cost. All of the Parent Company's financial assets and liabilities measured at fair value through profit or loss are assessed according to measurement level 2. A definition is provided in Note E1, page 89. Financial assets measured at amortized cost are continuously reviewed to assess the need for credit loss provisions. If there is a material need for credit loss provisions, a provision is made in accordance with the expected credit loss model.

PC10. FINANCIAL INSTRUMENTS, CONT.

Financial instruments by category

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

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

PC11. OTHER CURRENT LIABILITIES

Other current liabilities

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

TPC11:1 Accrued expenses and prepaid income

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

PC12. SHARE CAPITAL

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

YEAR	Event	No. of shares	Increase in share capital	Cash payment, SEKm
1988	Number of shares issued in connection with formation	500	0.1	0.1
1995	New issue 1:1, issue price SEK 100	500	0.1	0.1
2016	New issue 1:4, issue price SEK 100	4,000	0.4	0.4
2017	Bonus issue	702,337,489	2,349.9	0.0
2019	**Number of shares, December 31, 2019**	**702,342,489**	**2,350.4**	**0.5**

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

PC13. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities

SEKm	2019	2018
Guarantees for Group companies	16,890	16,878
Other contingent liabilities	60	78
Total	**16,950**	**16,956**

Pledged assets

SEKm	2019	2018
Other	227	213
Total	**227**	**213**

PC14. ADOPTION OF THE ANNUAL ACCOUNTS

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

PC15. EVENTS AFTER THE BALANCE SHEET DATE

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

H. NOTES TO NON-FINANCIAL INFORMATION

H1. GENERAL ACCOUNTING PRINCIPLES

Reporting principles

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

For Group companies with significant non-controlling interests (see Note F2), such as the Chinese company Vinda and the Colombian company Familia, social data, such as employee figures, employee turnover and health and safety data is reported in notes H13 and H14. Some other social data is not included, for example Note H2 Code of Conduct data, as these companies have their own Codes of Conduct. Vinda publishes an Environmental, Social and Governance (ESG) report, which is available at www.vinda.com. Familia reports in accordance with the GRI Reporting Standards. For more information, visit www.grupofamilia.com.co.

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

Data collection

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

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

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

Each unit reports the following data to the system:

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

The calculation of greenhouse gas emissions for Scope 1, 2 and 3 of Science Based Targets encompasses carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). Conversion factors used:

- emissions of greenhouse gases from incineration are calculated using emission factors for the fuel's thermal value. Source: IPCC Guidelines 2006. (Scope 1 emissions)
- emissions of greenhouse gases from purchased electricity are calculated using the country's emission factor published by the International Energy Agency (IEA), 2016. (Scope 2 emissions, location-based)

Comparability

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

Environmental impact

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

GRI reporting

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

The UN Guiding principles

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

H2. CODE OF CONDUCT AND WORK WITH ANTI-CORRUPTION

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

Risk analysis

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

Reported breaches of the Code of Conduct

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

Internal audits conducted of the Code of Conduct

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

Internal audits conducted of business ethics

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

Ongoing anti-trust cases

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

H3. INNOVATION

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

People and nature innovations

Carbon footprint reduction

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

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

H4. CUSTOMERS AND CONSUMERS

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

The retail trade accounts for a significant part, 58%, of Essity's net sales. The company uses external comparison reports in which the largest retail chains assess their suppliers based on customer service, logistics, sales support, marketing and product development. Consumers who purchase retail products are followed up through general brand and product recognition surveys.

Customer surveys

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

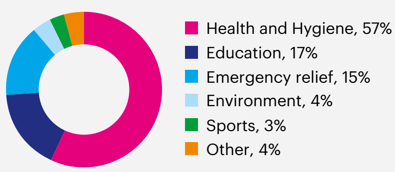
H5. COMMUNITY RELATIONS AND ROLE IN SOCIETY

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

Essity invested approximately SEK 38m (18; 16) and about 8,000 work hours (including staff management) in over 350 projects in 2019. Most of the projects were related to hygiene and health.

Essity's community relations instruction states that Essity shall be politically and religiously neutral. The company must not make payments or product donations to political parties or candidates, or their institutions, agencies or representatives. Essity did not support any organizations or projects with political or religious aims in 2019.

Community relations by focus area 2019



H6. PACKAGING

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

H7. SUPPLY CHAIN MANAGEMENT

Essity's target is that all of our sourcing is to be from suppliers that share the company's values, as defined in Essity's Global Supplier Standard. This is to ensure responsible business methods and respect for human rights. The target for 2020 is that 100% of all strategically important sourcing categories and sourcing from high-risk areas, which corresponds to 90% of Essity's total purchase cost, is to comply with Essity's Global Supplier Standard. In 2019, 85% (71; 74) of the procurement spend was sourced from suppliers who fulfill these criteria.

Essity has an established process to perform continuous risk assessments of the company's suppliers and sourcing categories. The aim is to secure deliveries and minimize risks linked to the company's sourcing. Certain materials, such as cotton and wood fiber, are considered to have higher risk lower down in the value chain. Essity takes specific measures here, such as audits of subcontractors, or chooses certified raw materials that guarantee more sustainable extraction and production.

Ethical audit results

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

Essity is informed within 24 hours in cases of critical observations. To date, these types of observations were due to a lack of supervision at the production facility which allowed unauthorized access to the facility, excessive overtime, non-payment of overtime, or no evidence of fire drills being conducted in the last 12 months. No agreements with strategic suppliers were terminated on the grounds of sustainability-related non-compliance in 2019.

Risk exposure in Essity's supplier base

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

Global and regional strategic suppliers of raw materials and finished products represent about 85% (76; 61) of Essity's procurement spend. 19% (21; 22) of suppliers' manufacturing units are located in high-risk countries according to the Maplecroft Human Rights Index. These suppliers are in scope for ethical audits with a focus on health and safety, human rights, employment conditions and corruption. Essity has various tools to assess the need for an ethical audit, such as a low rating in Sedex or the result of Essity's regular risk assessments. Sedex is an online database that enables suppliers to share information with their customers on their status in areas such as labor conditions, environment, business ethics and health and safety. At the end of 2019, Essity had a total of 929 (694; 481) suppliers that share data via Sedex.

H8. FIBER SOURCING

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

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

Essity's fiber use

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

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

Recycled fiber

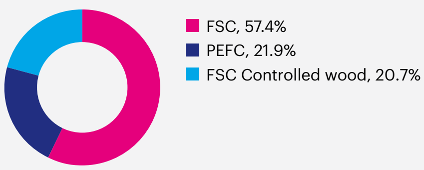
The proportion of recycled fiber in Essity's products varies between regions due to differences in quality, user preferences and fiber supply and demand. The North American operations use 98% (97; 94) recycled fiber, while the proportion of recycled fiber in Latin America is 68% (77; 68) and in Europe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

Results of audit of pulp suppliers

The eight largest pulp suppliers to Essity's wholly owned companies represent 80% the volume sourced. Essity audits all of its pulp suppliers to verify compliance with the company's sourcing policy for wood-based fresh fiber. In addition to this policy, all suppliers must sign Essity's Global Supplier Standard. Pulp suppliers are also assessed through the use of detailed questionnaires to verify that they fulfill the requirements of chain of custody certification and ecolabeling. All pulp suppliers in 2019 showed that they comply with the abovementioned policy and Supplier Standard.

During 2019, Essity's personnel visited 5 (10; 5) supplier facilities to assess compliance with the company's policy. In addition to these pulp supplier audits, Essity has provided support to several other suppliers where wood fiber may be part of the raw material. The purpose of this was to help them achieve FSC chain of custody certification.

Fresh fiber consumption 2019



H9. ENERGY AND EMISSIONS TO AIR/ SCIENCE BASED TARGETS

Energy utilization

Energy use calculations include purchased energy, use of fuel and biomass and electricity generated on site. Energy efficiency, new technology and the greater use of renewable energy are required to achieve Essity's stated targets. The energy generated is used in production. The surplus heat created is mainly used by Essity. A minor share is sold externally.

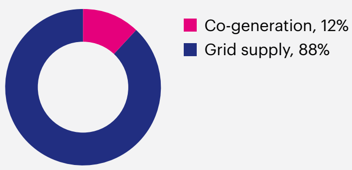
ESAVE

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

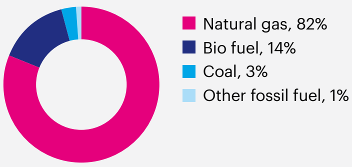
The EU Emissions Trading Scheme (EU ETS)

Essity had 24 production facilities included under the EU ETS in 2019. Essity's operations have a deficit of emission allowances during the third phase of EU ETS (2013–2020). The deficit involves an average of approximately 0.2 million tons of carbon dioxide equivalents per year during the period. The average market price for emission rights in 2019 was about EUR 24.8 (15.9; 15.8) per ton and Essity purchased 240,000 (240,000; 240,000) emission rights.

Electricity consumption 2019



Distribution of fuel consumption 2019



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

Emissions

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

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

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

Scope 3 emissions derive from, for example, energy use that is not owned or controlled by Essity. The emission categories included are from the production of purchased raw materials, incoming and outgoing transportation, production waste and waste from used products.

Science Based Targets

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

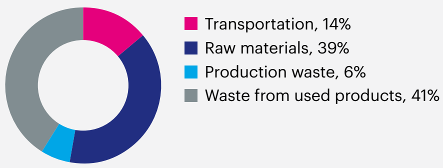
Essity has, moreover, undertaken to reduce greenhouse gas emissions from the most important purchased raw materials, transport, waste arising from operations and handling at the end of the life cycle for sold products (Scope 3) by 18% by 2030 compared with 2016. The outcome for 2018 was –3% for Scope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

Science Based Targets

		2019	2018	2017	2016
Scope 1, CO_2e	ktons	1,451	1,443	1,460	1,475
Scope 2, CO_2e[1]	ktons	1,336	1,338	1,437	1,456
Scope 3, CO_2e	ktons	–	3,292	–	–

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

Scope 3 emissions in 2018 by category



Energy and emissions to air

		Essity						Group companies with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Production	ktons	2,927	2,969	3,063	582	581	579	288	317	332	3,797	3,867	3,974
Energy utilization													
Purchased electricity	GWh	3,485	3,560	3,593	471	461	451	291	276	275	4,247	4,297	4,319
Heating/steam													
Purchased heating/steam	TJ	870	901	687	55	3	13	0	0	0	925	904	700
Fuels													
Biofuel	TJ	4,245	4,626	4,414	8	16	25	0	0	0	4,253	4,642	4,439
Fossil fuel	TJ	24,756	25,306	25,515	375	389	428	1,284	1,255	1,222	26,415	26,950	27,165
Total fuels	TJ	29,001	29,932	29,929	383	405	453	1,284	1,255	1,222	30,668	31,592	31,604
Total energy	GWh	11,783	12,125	12,097	593	574	580	648	625	615	13,024	13,324	13,292
Energy intensity (specific energy used)	GWh/ ktons	4.0	4.1	3.9	1.0	0.99	1.00	2.25	2.0	1.8	3.4	3.4	3.3
GHG emissions													
Scope 1, CO_2e	ktons	1,430	1,419	1,433	22	24	27	79	75	73	1,531	1,518	1,533
Scope 2, CO_2e	ktons	1,148	1,159	1,256	188	179	181	97	92	86	1,433	1,430	1,523
Carbon intensity (Scope 1 & 2)	ktons/ ktons	0.88	0.87	0.88	0.36	0.35	0.36	0.61	0.53	0.48	0.78	0.76	0.77

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

Other air emissions

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

Air emissions

		Essity						Group companies with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
NOx as NO_2	tons	1,545	1,758	1,827	0	17	21	27	23	24	1,572	1,798	1,872
SOx	tons	563	664	775	0	0	0	23	13	14	586	677	789
Dust	tons	123	116	122	0	0	0	5	5	5	128	121	127
CO_2 biogenic	ktons	510	474	459	2	0	0	0	0	0	512	474	459

H10. WATER

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

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

Usage and discharge of water

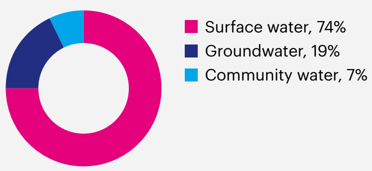
Essity's reporting of water usage states totals for surface water, groundwater and municipal water systems. Most of Essity's water is used to transport fibers during production processes. The remainder is mainly used as cooling water. 74% (75; 74) of the water used is drawn from surface sources. Essity's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

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

Six of Essity's wholly owned production facilities are located in so-called water-stressed areas. The sites accounted for 6% of Essity's total water consumption in 2019, distributed between 36% from surface sources, 35% from groundwater and the remainder from recycled water from municipal water systems.

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

Water extraction 2019



Water

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

[1] Water consumption is water extraction less discharged water.

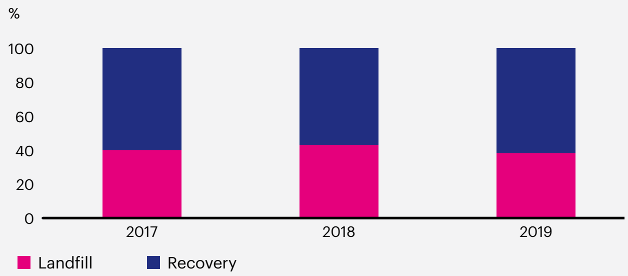
H11. WASTE

Essity's target is that all production waste will be subject to material and energy recovery by 2030. In 2019, Essity's production waste amounted to a total of 1.68 (1.65; 1.67) million tons. In Essity's production process, particularly when recovered fiber is used as input goods, waste is generated in the form of ash, sludge, organic waste and plastic. The production sites work to reduce waste and to find alternative solutions for their waste. Recycled waste can be used as raw materials for other industries, such as the cement, brick-making and construction industries. Waste can also be used for energy extraction. Waste that cannot be recovered, is sent to landfill or composted. In 2019, 63% (60; 62) of Essity's waste was recovered.

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

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

Waste



Solid waste

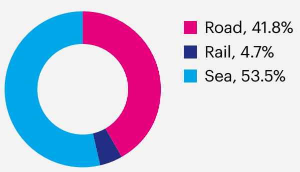
		Essity						Group companies with significant non-controlling interests			Essity Group		
		Consumer Tissue and Professional Hygiene			Personal Care			Tissue and Personal Care					
		2019	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Landfill and incineration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

H12. TRANSPORT

Raw materials are transported to Essity's production plants and finished products are delivered to Essity's customers. Essity uses external suppliers for most of its transportation needs. Essity's total transportation amounted to 13 (14; 13) billion ton-kilometers in 2019. Sea freight accounts for the greatest portion of Essity's transport and the remainder consists of road and rail. The Group's total carbon emissions from transport in 2019 amounted to 463,000 (480,000; 517,000) tons.

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

Distribution of transport usage 2019



H13. EMPLOYEES

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

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

1) Applies to wholly owned companies.

Diversity and equal opportunities

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

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

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

Salary

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

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

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

Individual development

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

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

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

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

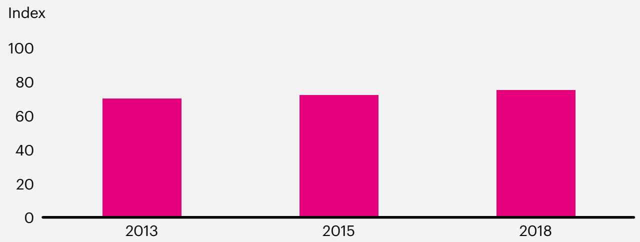
The average number of training hours per employee was 13 (15; 17) in 2019. On average, this involved 30 minutes of training in the new Code of Conduct, which includes human rights.

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

All Employee Survey

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

Essity's total index



Employee relations

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

H14. HEALTH AND SAFETY

Essity's Group target is to decrease the accident frequency rate by 50% in the 2014–2020 period. In 2019, the accident frequency rate declined by 13% year-on-year to 3.3 (3.8; 3.8) and 47% compared with the base year of 2014.

In 2018, Essity developed a tool to measure and assess physical, mental and social health. The tool compiles local reactive, proactive and preventive efforts. Feedback is then provided together with practical improvement proposals. The tool was introduced at just over ten facilities in Latin America in 2019.

Group-wide key performance indicators (KPIs)

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

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

Health and safety

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

Sickness absence

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

H15. CERTIFICATIONS

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

Certified volumes, Essity's main sites[1]

		Consumer Tissue and Professional Hygiene			Personal Care		
		2019	2018	2017	2019	2018	2017
ISO 9001	%	70	73	73	97	97	97
ISO 14001	%	79	80	85	88	86	85
OHSAS 18001	%	77	68	67	97	90	89

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

PC16. PROPOSED DISPOSITION OF EARNINGS

Annual accounts 2019

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

1) The company's equity would have been SEK 161,228,783 lower if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14 of the Swedish Annual Accounts Act.

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

Stockholm, February 20, 2020

Ewa Björling
Board member

Pär Boman
Chairman of the Board

Maija-Liisa Friman
Board member

Annemarie Gardshol
Board member

Magnus Groth
President,
CEO and
Board member

Susanna Naumanen
Board member,
appointed by the employees

Bert Nordberg
Board member

Louise Svanberg
Board member

Örjan Svensson
Board member,
appointed by the employees

Lars Rebien Sørensen
Board member

Barbara Milian Thoralfsson
Board member

Niclas Thulin
Board member,
appointed by the employees

Our audit report was submitted on February 20, 2020
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

Auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Essity AB (publ) except for pages 40–55 and 114–121 for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 6–8 and 22–126 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover pages 40–55 and 114–121. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

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

VALUATION OF GOODWILL AND OTHER INTANGIBLES ASSETS (TRADEMARKS)

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

REVENUE RECOGNITION AND RELATED SALES INCENTIVES

Description	How our audit addressed this key audit matter
Revenue recognition and accounting for related sales incentives (bonuses and rebates) are areas with a greater degree of estimation and assessment. Incentives related to sales are reported as reduction of the company´s revenue. We have noted that bonuses, rebates and other adjustments of sales prices in some cases can be material. Incentives can for example be structured as a percentage reduction of sales volumes, discounts per item, fixed amounts with or without thresholds or in other ways. The company calculates an estimate of final incentives based on the information available the end of the period. We have therefore assessed revenue recognition and related sales incentives to be a key audit matter.	In our audit we have reviewed the company's revenue recognition with focus on bonuses and rebates. We have evaluated the company's revenue process and tested the company's controls within the process. We have also on a sample basis reviewed the accrued costs related sales incentives (bonuses and rebates) to customers as of 31 December 2019 which amounted to 6.0 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2018. Our audit has also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2019. We have also reviewed a sample of revenue recognition for non-standard customer agreements. In our audit we have tested larger payouts to the company´s customers that have taken place during 2019 in order to confirm that they are in accordance with signed agreements and also accrued correctly in the accounting. Finally, we have audited manual journal entries related to bonus and rebates to confirm that sufficient documentation and suitable attestations exist for these entries.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–5, 9–21 and 127–133. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

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

We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Essity AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

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

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

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

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

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

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

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

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

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

The auditor's examination of the corporate governance statement
The Board of Directors is responsible for that the corporate governance statement on pages 46–55 has been prepared in accordance with the Annual Accounts Act.

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

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

The auditor´s opinion regarding the statutory sustainability report
The Board of Directors is responsible for the statutory sustainability report on pages 34–45 and 114–121, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Ernst & Young AB with Hamish Mabon as auditor in charge, Box 7850, 103 99 Stockholm, was appointed auditor of Essity AB by the general meeting of the shareholders on April 4, 2019 and has been the company's auditor since May 27, 2016.

Stockholm, February 20, 2020
Ernst & Young AB

Hamish Mabon
Auktoriserad revisor

Statutory sustainability report

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

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GRI index

Essity's 2019 Annual and Sustainability Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standard: Core. The following index shows where information on the GRI indicators can be found.

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Specific Standard Disclosures

GRI Standard		Description	Page	Comment/Omission	Topic in Essity's materiality analysis
ECONOMIC					
Indirect Economic Impacts GRI 203: Indirect Economic Impacts 2016	103-1/2/3[1]	Disclosure on management approach (DMA)	43		Risk management
	203-2	Significant indirect economic impacts	19–21, 43–45		
Anti-corruption GRI 205: Anti-corruption 2016	103-1/2/3[1]	DMA	42		Business ethics Transparency
	205-1	Operations assessed for risks related to corruption and the transparency-significant risks identified	114		
	205-3	Actions taken in response to confirmed incidents of corruption	114		
Anti-competitive Behavior GRI 206: Anti-competitive Behavior 2016	103-1/2/3[1]	DMA	42		Business ethics Transparency
	206-1	Anti-trust and monopoly court cases	114		
ENVIRONMENT					
Energy GRI 302: Energy 2016	103-1/2/3[1]	DMA	20, 43–44		Climate change, Waste/circularity and plastics
	302-1	Energy consumption within the organization	117–118		
	302-4	Reduction of energy consumption	117–118		
Water GRI 303: Water 2016	103-1/2/3[1]	DMA	44		Water
	303-1	Total water withdrawal by source	118		
Emissions GRI 305: Emissions 2016	103-1/2/3[1]	DMA	43–44		Climate change, Water, Waste/circularity and plastics, Fiber sourcing
	305-1	Direct greenhouse gas (GHG) emissions (Scope 1)	117–118		
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	305-3	Other indirect greenhouse gas (GHG) emissions (Scope 3)	116		
	305-4	Greenhouse gas (GHG) emissions intensity	117		
	305-7	NO_x, SO_x, and other significant air emissions	118		
Effluents and Waste GRI 306: Effluents and Waste 2016	103-1/2/3[1]	DMA	42–43		Water, Waste/circularity and plastics
	306-1	Total water discharge by quality and destination	118		
	306-2	Total weight of waste by type and disposal method	119		
SOCIAL PERFORMANCE INDICATORS					
Employment GRI 401: Employment 2016	103-1/2/3[1]	DMA	41–42, 44–45		Human capital
	401-1	New employee hires and employee turnover	120		
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	402-1	Minimum notice periods regarding operational changes	120		
Health and safety GRI 403: Occupational Health and Safety 2016	103-1/2/3[1]	DMA	41–42, 121		Health and safety
	403-1	Percentage of total workforce represented in formal joint management-worker health and safety committees	120		
	403-2	Rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities	121		
Training and Education GRI 404: Training and Education 2016	103-1/2/3[1]	DMA	41–42, 44–45, 120		Human capital
	404-3	Percentage of employees receiving regular performance and career development reviews	120		
Diversity and equal opportunities GRI 405: Diversity and Equal Opportunity 2016	103-1/2/3[1]	DMA	41–42, 44–45		Human capital
	405-1	Composition of governance bodies and employee breakdown	46–47, 52–53, 80, 120		
	405-2	Ratio of basic salary and remuneration of women to men	120		
Non-discrimination GRI 406: Non-discrimination 2016	103-1/2/3[1]	DMA	41–42, 44–45		Business ethics Transparency
	406-1	Actions taken in incidents of discrimination	114		
Freedom of Association and Collective Bargaining GRI 407: Freedom of Association and Collective Bargaining 2016	103-1/2/3[1]	DMA	40–41, 44–45		Business ethics Transparency
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		No Essity sites were identified as high-risk sites by Sedex.	
Child Labor GRI 408: Child Labor 2016	103-1/2/3[1]	DMA	41–42		Business ethics Transparency
	408-1	Measures taken to eliminate child labor in risk areas	114	No Essity sites were identified as high-risk sites by Sedex.	
Forced or Compulsory Labor GRI 409: Forced or Compulsory Labor 2016	103–1/2/3[1]	DMA	41–42		Business ethics Transparency
	409-1	Measures taken to eliminate forced or compulsory labor in risk areas	114	No Essity sites were identified as high-risk sites by Sedex.	
Human rights GRI 412: Human Rights Assessment 2016	103–1/2/3[1]	DMA	41–42		Human rights Business ethics Transparency
	412-2	Employee training on human rights	114	Work in the area of human rights takes many different forms via training sessions, for example, through the Code of Conduct.	
Supplier Social Assessment GRI 414: Supplier Social Assessment 2016	103-1/2/3[1]	DMA	41–44		Human rights Business ethics Transparency
	414-2	Significant potential and actual negative impacts in the supply chain and actions taken	116		
Marketing and Labeling GRI 417: Marketing and Labeling 2016	103-1/2/3[1]	DMA	15		Customer and consumer satisfaction, Safe products
	417-1	Product information required by procedures	43		

1) GRI 103: Management Approach 2016

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

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

Till Essity Aktiebolag (publ), org.nr 556325-5511

INTRODUCTION

We have been engaged by the Board of Essity Aktiebolag (publ) to undertake a combined assurance engagement of the Sustainability Report for Essity Aktiebolag (publ) for the year 2019. The scope of the Sustainability Report has been defined on pages 127–128.

RESPONSIBILITIES OF THE BOARD AND EXECUTIVE MANAGEMENT FOR THE SUSTAINABILITY REPORT

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

RESPONSIBILITIES OF THE AUDITOR

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

We conducted our engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information. The engagement includes a limited assurance engagement on the complete Sustainability Report and audit on fossil fuels and grid supply data on page 117. The objective of an audit is to obtain reasonable assurance that the information is free of material misstatements. A reasonable assurance engagement includes examining, on a test basis, evidence supporting the quantitative and qualitative information in the Sustainability Report. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. A limited assurance engagement is different from and substantially less in scope than reasonable assurance conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden.

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

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

Our procedures are based on the criteria de¬fined 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 de¬fined by the Board of Directors and Executive Management.

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

Stockholm, 20 February 2020
Ernst & Young AB

Hamish Mabon	Outi Alestalo
Authorized Public Accountant	Expert member of FAR

Description of costs

Essity Group

Total operating expenses[1]: SEK 113,972m
- Sales, general and administration[2], 20%
- Energy, 4%
- Transport and distribution expenses, 10%
- Other costs of goods sold[3], 27%
- Raw materials and consumables, 39%

Of which	
Pulp	17%
Recovered paper	4%
Non-woven	3%
Super absorbents	2%
Other[4]	13%
Total raw materials and consumables	**39%**

Personal Care

Total operating expenses[1]: SEK 42,352m
- Sales, general and administration, 30%
- Energy, 1%
- Transport and distribution expenses, 9%
- Other costs of goods sold, 20%
- Raw materials and consumables, 40%

Of which	
Pulp	8%
Non-woven	7%
Super absorbents	6%
Other	19%
Total raw materials and consumables	**40%**

Consumer Tissue

Total operating expenses[1]: SEK 44,591m
- Sales, general and administration, 12%
- Energy, 7%
- Transport and distribution expenses, 11%
- Other costs of goods sold, 18%
- Raw materials and consumables, 52%

Of which	
Pulp	29%
Recovered paper	4%
Other	19%
Total raw materials and consumables	**52%**

Professional Hygiene

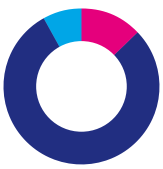
Total operating expenses[1]: SEK 26,338m
- Sales, general and administration, 14%
- Energy, 5%
- Transport and distribution expenses, 11%
- Other costs of goods sold, 35%
- Raw materials and consumables, 35%

Of which	
Pulp	10%
Recovered paper	9%
Other	16%
Total raw materials and consumables	**35%**

1) Excluding items affecting comparability.
2) Sales, general and administration include costs for marketing by 6 percentage points.
3) The two largest items in Other costs of goods sold comprise personnel (10 percentage points) and depreciation and amortization (4 percentage points).
4) The item Other in Raw materials and consumables includes costs for chemicals, packaging material and plastic material.

Raw materials

Pulp consumption



- Personal Care, 13%
- Consumer Tissue, 79%
- Professional Hygiene, 8%

Total of 3.1 million tons
Essity's own pulp production corresponded to 8% of the pulp consumption and is primarily related to an integrated tissue plant in Mannheim, Germany.

Recovered paper consumption

- Consumer Tissue, 34%
- Professional Hygiene, 66%

Total of 2.1 million tons

Production facilities[1)]

(Capacity is stated in thousands of tons, unless otherwise indicated, and per year)

Personal Care

Production facility	Country
Annaba	Algeria
Buenos Aires	Argentina
Jarinu	Brazil
Drummondville	Canada
Hubei	China
Zhejiang	China
Cali	Colombia
Caloto	Colombia
Rio Negro	Colombia
San Cristobal	Dominican Republic
Lasso	Ecuador
Radiante	France
Vibraye	France
Emmerich	Germany
Hausbruch	Germany
Goa	India
Shah Alam 1&2	Malaysia
Ecatepec	Mexico
Maquiladora	Mexico
Reynosa	Mexico
Assen	Netherlands
Gennep	Netherlands
Hoogezand	Netherlands
Olawa	Poland
Veniov	Russia
Gemerská Hôrka	Slovakia
Pinetown	South Africa
Valls	Spain
Falkenberg	Sweden
Mölnlycke	Sweden
Kao Hsiung	Taiwan
Ksibet el Mediouni	Tunisia
Gebze (Istanbul)	Turkey
Kartepe	Turkey
Bowling Green	USA

Consumer Tissue and Professional Hygiene

Production facility	Country	Capacity
Ortmann	Austria	132
Stembert	Belgium	75
Santiago	Chile	28
Beijing	China	30
Hubei	China	300
Liaoning	China	55
Shangdong	China	110
Sichuan	China	75
Xinhui, Sanjiang	China	410
Yangjiang	China	60
Zhejiang	China	210
Cajica	Colombia	70
Medellin	Colombia	30
Inpaecsa	Ecuador	13
Lasso	Ecuador	26
Nokia	Finland	67
Gien	France	145
Hondouville	France	55
Kunheim	France	50
Le Theil	France	65
Kostheim	Germany	152
Mannheim	Germany	283
Neuss	Germany	112
Witzenhausen	Germany	32
Altopascio	Italy	25
Collodi	Italy	42
Lucca	Italy	100
Monterrey	Mexico	62
Sahagun	Mexico	95
Uruapan	Mexico	40
Cuijk	Netherlands	52
Suameer[2)]	Netherlands	8
Sovetsk	Russia	90
Svetogorsk	Russia	55
Allo	Spain	140
Valls	Spain	137
Lilla Edet	Sweden	100
Manchester	UK	50
Oakenholt	UK	70
Prudhoe	UK	94
Stubbins	UK	55
Tawd Mill	UK	30
Barton	USA	180
Harrodsburg	USA	55
Menasha	USA	211
Middletown	USA	100
South Glens Falls	USA	64
Total		**4,440**

Converting facilities

Kingsgrove	Australia
Jarinu	Brazil
Lucca	Italy
Hlohovec	Slovakia
Telde	Spain
Ksibet el Mediouni	Tunisia
Skelmersdale	UK
Greenwich	USA
Neenah	USA

1) As of December 31, 2019.
2) Non-woven production.

Financial multi-year summary

SEKm	2019	2018	2017	2016	2015
INCOME STATEMENT					
Net sales	**128,975**	**118,500**	**109,265**	**101,238**	**98,519**
Adjusted EBITA[1)]	**15,840**	**12,935**	**13,405**	**11,992**	**10,603**
Personal Care	6,746	6,354	5,937	4,283	3,997
Consumer Tissue	5,321	3,331	4,084	4,450	3,846
Professional Hygiene	4,463	3,841	4,004	3,836	3,497
Other operations	–690	–591	–620	–577	–737
Items affecting comparability	–713	–1,375	–855	–2,645	–292
EBITA	**15,127**	**11,560**	**12,550**	**9,347**	**10,311**
Depreciation of acquisition-related intangible assets	–778	–732	–560	–159	–133
Items affecting comparability	0	–69	–85	–180	–494
Operating profit	**14,349**	**10,759**	**11,905**	**9,008**	**9,684**
Financial income[2)]	106	91	158	202	312
Financial expenses	–1,415	–1,248	–1,340	–1,037	–1,140
Profit before tax	**13,040**	**9,602**	**10,723**	**8,173**	**8,856**
Tax	–2,828	–1,050	–1,938	–3,931	–2,278
Profit for the period	**10,212**	**8,552**	**8,785**	**4,242**	**6,578**
BALANCE SHEET					
Non-current assets (excl. financial receivables)	116,779	110,370	105,398	77,238	67,483
Receivables and inventories	38,486	38,646	34,664	29,917	29,171
Non-current assets held for sale	42	69	42	156	120
Financial receivables	3,535	1,751	1,700	1,052	766
Current financial assets	525	422	1,105	1,677	12,983
Cash and cash equivalents	2,928	3,008	4,107	4,244	4,828
Total assets	**162,295**	**154,266**	**147,016**	**114,284**	**115,351**
Equity	54,125	47,141	42,289	33,204	42,986
Non-controlling interests	8,676	7,758	7,281	6,376	5,289
Provisions[6)]	14,017	15,696	14,659	11,961	8,450
Interest-bearing debt	52,062	54,327	54,838	36,873	34,717
Operating and other non-interest bearing liabilities[6)]	33,415	29,344	27,949	25,870	23,909
Total liabilities and equity	**162,295**	**154,266**	**147,016**	**114,284**	**115,351**
Capital employed[3)]	114,663	107,575	90,167	73,145	70,115
Net debt	50,940	54,404	52,467	35,173	19,058
CASH FLOW STATEMENT					
Operating cash flow[6)]	15,639	9,900	10,622	10,998	8,261
Cash flow from current operations[6)]	13,208	6,363	6,644	6,530	5,371
Cash flow before dividend	13,285	5,737	–19,372	359	5,328
Investments in non-current assets, net	–5,707	–6,781	–6,012	–6,255	–5,472
Company acquisitions	–143	–694	–26,045	–6,540	–92
Divestments	220	68	29	369	49
KEY FIGURES[4)]					
Equity/assets ratio, %	33	31	29	29	37
Interest coverage ratio	11.0	9.3	10.1	10.8	11.7
Debt payment capacity, incl. pension liabilities, %	38	25	26	29	65
Debt/equity ratio, incl. pension liabilities	0.81	0.99	1.06	0.89	0.39
Debt/equity ratio, excl. pension liabilities	0.76	0.92	0.99	0.76	0.34
Return on capital employed, %	13.2	10.8	13.9	12.8	13.8
Adjusted return on capital employed, %	13.8	12.0	14.9	16.4	15.1
Return on equity, %	17.4	16.1	19.8	9.3	13.9
EBITA margin, %	11.7	9.8	11.5	9.2	10.5
Adjusted EBITA margin, %	12.3	10.9	12.3	11.8	10.8
Operating margin, %	11.1	9.1	10.9	8.9	9.8
Adjusted operating margin, %	11.7	10.3	11.8	11.7	10.6
Net margin, %	7.9	7.2	8.0	4.2	6.7
Capital turnover rate	1.12	1.10	1.21	1.38	1.41
Operating cash flow per share, SEK	18.81	9.06	9.46	9.30	7.65
Earnings per share, SEK	13.12	11.23	11.56	5.41	8.73
Dividend per share, SEK	6.25[5)]	5.75	5.75		

1) 2015 includes the sale of securities, SEK 970m.
2) 2015 does not include the sale of securities, SEK 970m.
3) Calculation of average capital employed is based on five measurements.
4) Key figures are defined on paged 64–69.
5) Dividend proposed by the Board of Directors.
6) Comparison figures for 2015–2018 have changed.

Through partnerships, we are breaking barriers to well-being

Essity and UNICEF in Mexico collaborate on hygiene issues

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In 2019, Essity and UNICEF in Mexico entered into a new agreement to jointly promote awareness of the importance of good hand hygiene, to break the taboo around menstruation and to strengthen standards and guidelines to support good hygiene and health. Over the next three years, the collaboration will provide education to thousands of pupils, teachers and parents in Mexico City and Chihuahua about attitudes and practices in connection with menstruation and hand washing and discussions will be held with relevant stakeholders who can drive change in Mexico.

The project is called Hygiene is our right, and is highlighting the rights of children and young people in relation to health, education and gender equality. The shortage of water and hygiene facilities in schools may lead to for example higher absenteeism and poorer school results.

Essity and our Feminine Care brand in Mexico, Saba, have collaborated with UNICEF since 2016 to increase dialogue about menstruation and hygiene issues among young people. The first collaboration reached about 7.5 million people through various channels in Mexico. The Essity brands Saba and Tork are participating in the new collaboration.

Essity and Fotografiska organize "Power of Hands" exhibition

In Essity's partnership with Fotografiska Museum in Stockholm, we are raising awareness of social issues by using photographs to inspire action.

The "Power of Hands" exhibition is the third time Essity and Fotografiska hold a joint exhibition aimed at highlighting how hygiene and health affect people's well-being.

With the "Power of Hands", Essity and Fotografiska for Life – through Malin Fezehai's photographic works – wish to highlight the role that hands play in our lives. We want to highlight the importance of good hand hygiene. Hand hygiene is important for your personal hygiene and crucial in avoiding the spread of infections and to combat antimicrobial resistance. Access to clean water and soap can even save lives.

A fundraising was made in conjunction with the exhibition that will be donated to UNICEF.

Awards and memberships

Essity's partners include:

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The name Essity stems from the words essentials and necessities.
We are a leading global hygiene and health company that offers products and solutions that are a necessity in everyday life. Hygiene and health are central to people's well-being. Improved hygiene and health are preconditions for a better life and play an essential role in well-being.

That is why we are called Essity.

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