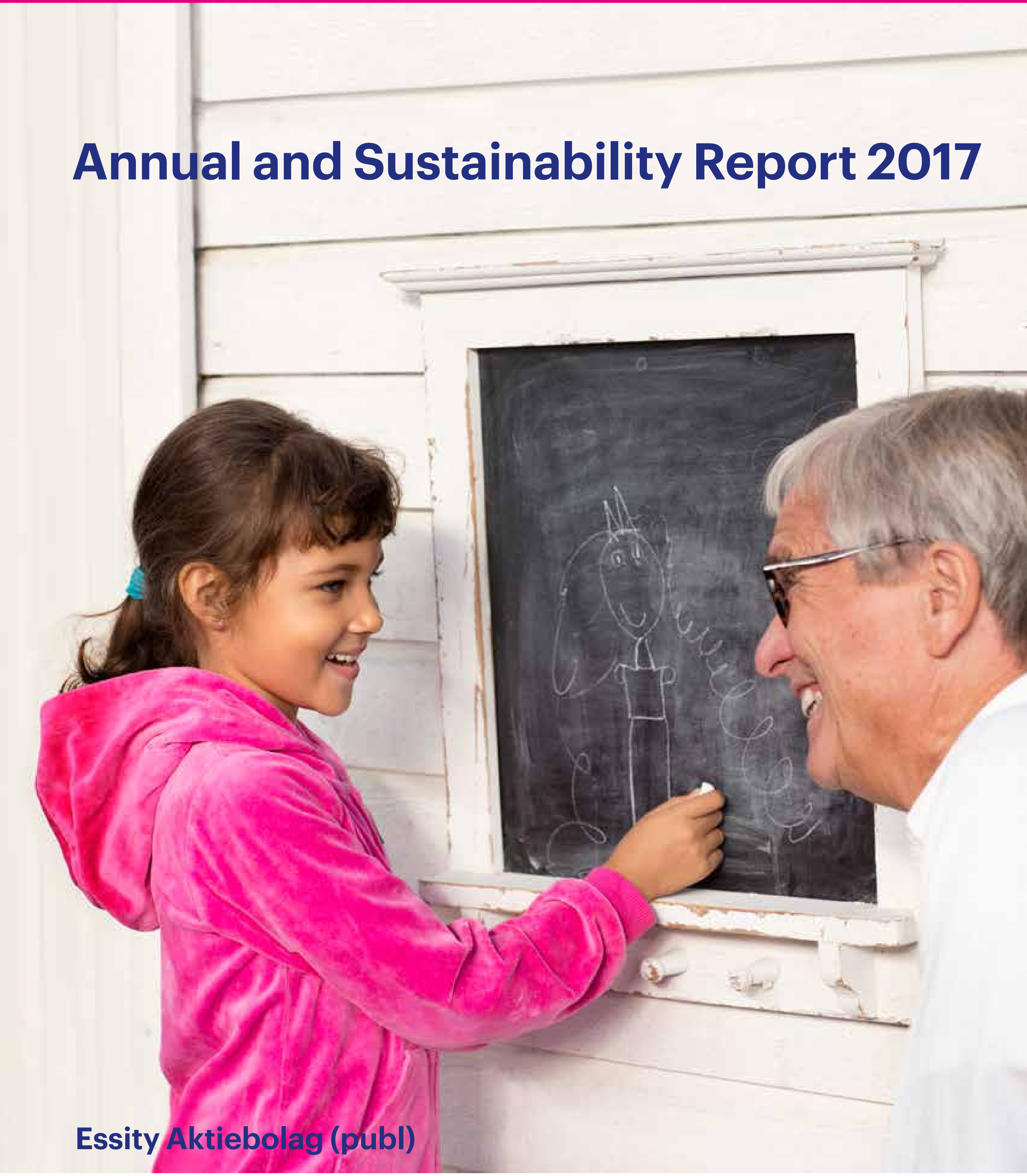
Annual and Sustainability Report 2017



Essity Aktiebolag (publ)

essity


Hygiene and health are essential to people's well-being.
We at Essity are dedicated to improving well-being through leading hygiene and health solutions.
Welcome to Essity!
See the film at www.essity.com

Contents

This is Essity

Net sales 2017
109,265
SEKm

Sales in approximately
150
countries

Adjusted EBITA[1] 2017
13,405
SEKm

Employees, approximately
48,000
around the world

[1] Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability.

Our three business areas

Personal Care READ MORE ON PAGES 46–51

Essity is a leading global player in personal care. Our offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Products are sold under brands such as Jobst, Leukoplast, Libero, Libresse, Nosotras, Saba and the globally leading brand TENA, and as retailers' brands.

Consumer Tissue READ MORE ON PAGES 52–55

Essity is the world's second largest supplier of consumer tissue. Our 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, and as retailers' brands.

Professional Hygiene READ MORE ON PAGES 56–59

Essity is the world's largest supplier of products and solutions in the market for professional hygiene under the globally leading Tork brand. Our offering comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, Internet of Things sensor technology, as well as service and maintenance.

About the report The Annual and Sustainability Report 2017 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 38–161 and includes the auditor's report from our auditors. Pages 66–83 and 149–156 encompass Essity's statutory sustainability report according to the requirements stated in the Annual Accounts Act. 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.

Our strengths

Leader in an attractive and growing hygiene and health market

Essity is a leading global hygiene and health company. Shifts in global demographics such as population growth, due primarily to a lower infant mortality rate and increased longevity, and higher disposable income point to continued good growth for hygiene and health products. An increased prevalence of chronic diseases and greater life expectancy of people with chronic diseases, also support future growth in the market for health products.

Strong presence in emerging markets

Essity holds a strong position in several key emerging markets, such as China, Latin America and Russia. We are the majority shareholder in Vinda, one of China's largest hygiene companies. Emerging markets accounted for 35% of Essity's net sales in 2017. The growth potential for hygiene and health products is substantial in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, infrastructure and the retail trade are evolving rapidly. Increased disposable income leads to higher standards of living and to more people prioritizing hygiene and health. Consequently, demand and market penetration for hygiene and health products are rising in emerging markets.

Leading market positions and strong brands

Essity has sales in approximately 150 countries. We are the global market leader in incontinence products under the TENA brand and in professional hygiene under the Tork brand. In addition, we have strong brands and market positions in the markets for baby care, feminine care, medical solutions and consumer tissue. Essity holds the number one or number two position within at least one product segment in approximately 90 countries.

Successful innovations

Essity's offerings simplify everyday life for millions of people worldwide. Innovations and product launches are a top priority when it comes to delivering increased customer and consumer value, as well as reducing resource consumption in all stages of the value chain. We strive to create market-leading digital products and solutions in hygiene and health. In 2017, we further developed our customer and consumer offering and launched 41 innovations.

Focus on efficiency improvements and cost savings

Essity continuously works to improve efficiency in order to thereby strengthen competitiveness, cut costs and improve earnings. A more efficient value chain can be achieved by streamlining the supply chain and leveraging economies of scale. Improved capital efficiency, lower costs and strengthened cash flow are made possible through efficiency improvements and savings measures, as well as the optimization of capital employed in all parts of the company. Essity has global units, for example, for innovation and brand activities, as well as production, sourcing and logistics, to generate cost synergies and enable efficient resource allocation.

Profitable growth and strong cash flow

Through continuous work to grow profitable market positions, improve or exit underperforming positions, successful innovations and efficiency improvements, Essity has demonstrated profitable growth and strong cash flow.
Between 2014 and 2017, Essity's net sales increased 24.2%, of which organic sales grew by 10.0%. During the same period, adjusted EBITA[1)] increased 41% and adjusted EBITA margin[1)] increased from 10.8% to 12.3%. The company has generated strong cash flow and in 2017 cash flow from operating activities amounted to SEK 12,729m.

[1)] Excluding items affecting comparability.

The year at a glance

Key events

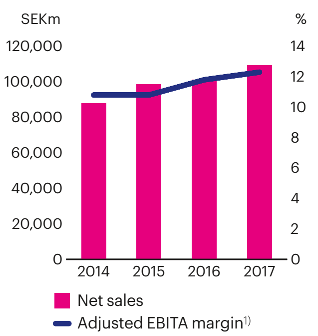
- Acquisition of BSN medical, a leading medical solutions company, was closed on April 3, 2017.
- On April 5, 2017, the Annual General Meeting of SCA decided, in accordance with the Board of Directors' proposal, to distribute all shares in Essity Aktiebolag (publ) to SCA's shareholders.
- On June 15, 2017, Essity Aktiebolag (publ) was listed on Nasdaq Stockholm.
- Financial targets for Essity Group were announced: Annual organic sales growth of above 3% and adjusted return on capital employed of above 15%.
- The hygiene business in India was discontinued.
- Decision was taken on restructuring measures in tissue production in the UK and US.
- Decision on investment in tissue operations in Mexico and the UK, and Baby Care operations in Europe.
- Collaboration with Microsoft on the Internet of Things to further strengthen Essity's innovation agenda.
- Convening partner to the fifth annual meeting of the UN Foundation Dialogue on the Global Agenda held at the UN headquarters in New York. Discussions concerned how to achieve the 17 UN Sustainable Development Goals.
- CDP, an international not-for-profit charity that promotes a more sustainable economy, named Essity as global leader in initiatives for water and wood fiber-based materials and awarded the company its highest score.
- Recognized as one of the world's top 100 most sustainable companies by Corporate Knights.
- Received honorary recognition at the European Paper Recycling Awards held by the European Parliament for its work on Tork PaperCircle™, the world's first recycling service for paper hand towels.

Key figures

	2017		2016	
	SEK	**EUR**[4]	**SEK**	**EUR**[4]
Net sales, SEKm/EURm	109,265	11,343	101,238	10,706
EBITA, SEKm/EURm	12,550	1,303	9,347	989
Adjusted EBITA[1], SEKm/EURm	13,405	1,392	11,992	1,268
EBITA margin, %	11.5		9.2	
Adjusted EBITA margin[1], %	12.3		11.8	
Operating profit, SEKm/EURm	11,905	1,236	9,008	953
Adjusted operating profit[1], SEKm/EURm	12,845	1,334	11,833	1,251
Operating margin, %	10.9		8.9	
Adjusted operating margin[1], %	11.8		11.7	
Profit before tax, SEKm/EURm	10,723	1,113	8,173	865
Adjusted profit before tax[1], SEKm/EURm	11,663	1,211	10,998	1,163
Profit for the year, SEKm/EURm	8,785	912	4,242	449
Adjusted profit for the year[1], SEKm/EURm	9,472	983	6,643	703
Earnings per share, SEK	11.56		5.41[2]	
Adjusted earnings per share[3], SEK	13.09		8.99[2]	
Cash flow from current operations per share, SEK	12.45		12.19[2]	
Equity per share, SEK	70.58		56.13[2]	
Dividend per share, SEK	5.75[5]			
Strategic capital expenditures, including acquisitions, SEKm/EURm	–28,146	–2,922	–8,573	–907
Divestments, SEKm/EURm	29	3	369	39
Equity, SEKm/EURm	49,570	5,039	39,580	4,141
Return on capital employed, %	13.9		12.8	
Adjusted return on capital employed[1], %	14.9		16.4	
Return on equity, %	19.8		9.3	
Adjusted return on equity[1], %	21.3		14.5	
Debt/equity ratio	1.06		0.89	
Debt/equity ratio, excluding pension liabilities	0.99		0.76	
Average number of employees	46,385		42,149	
No. of employees at Dec. 31	47,700		42,520	
Accident frequency rate, (LTA[6]/1,000,000 WH)	3.8		4.1	
People and nature innovations[7], %	42		41	

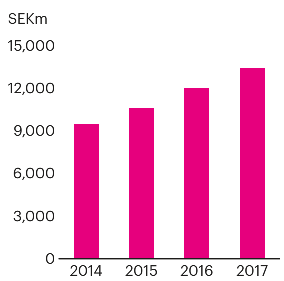
1) Excluding items affecting comparability.
2) Indicative on the assumption that the number of issued shares in Essity as of December 31, 2016 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).
3) Excluding items affecting comparability and amortization of acquisition-related intangible assets.
4) See footnote 1) on pages 96 and 100 for exchange rates.
5) Dividend proposed by the Board of Directors.
6) Lost Time Accidents.
7) Share of Essity´s innovations that yielded social and/or environmental improvements.

Net sales and adjusted EBITA margin[1]

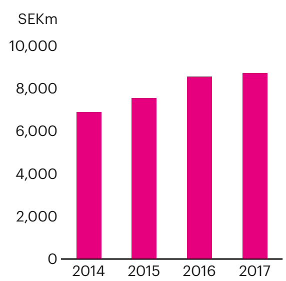


1) Excluding items affecting comparability.

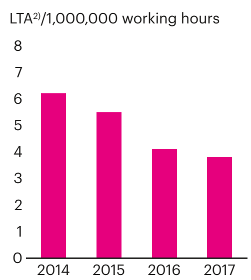
Adjusted EBITA[1]



Cash flow from current operations

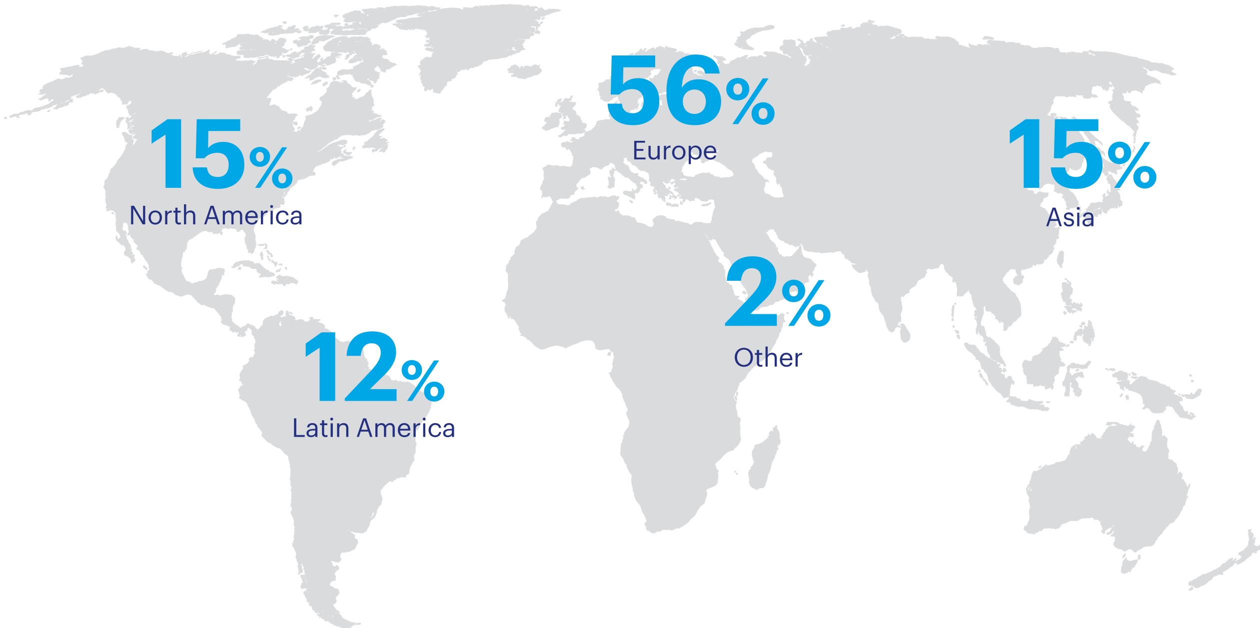


Accident frequency rate

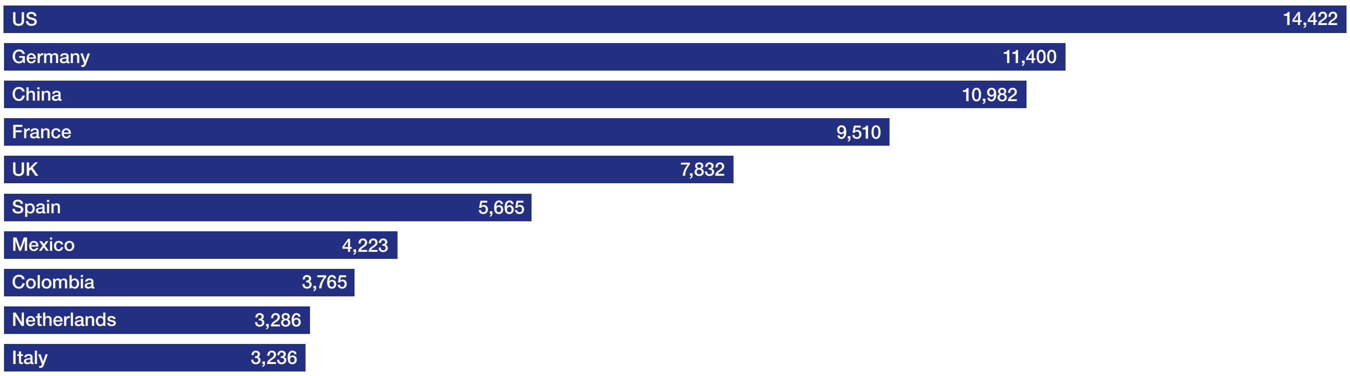


2) Lost Time Accidents.

Net sales 2017 by region



Net sales 2017 by country, SEKm



Essity educated more than 2.5 million in hygiene and health

100,000 parents-to-be

More than 100,000 parents-to-be took part in courses on breastfeeding, nutrition and hygiene, and how childbirth affects women and women's bodies.

300,000 children

Almost 300,000 children and young people took part in courses about hand hygiene through initiatives in schools, and via the popular and educational app "Ella's hand washing adventure".

100,000 nurses

More than 100,000 nurses and other caregivers were trained in incontinence care, skincare, dementia, lymphology and wound care across the globe.

Essity improves people's well-being

The listing of Essity on Nasdaq Stockholm on June 15, 2017, resulting from the split of SCA, has shown the value of two strong listed companies. Through the split and the acquisition of the leading medical solutions company BSN medical, we created Essity, a leading global hygiene and health company.

The name Essity stems from the words: essentials and necessities. Hygiene and health are necessities for a better life, and our products and solutions play an essential role in improving well-being in the world. Our vision is: Dedicated to improving well-being through leading hygiene and health solutions.

We are improving hygiene and health in the markets in which we operate through innovation and education, thereby strengthening our market positions and creating growth opportunities. During the year, we launched 41 innovations that improved our customer and consumer offering in all categories and we have educated more than 2.5 million people about menstruation, puberty, hand hygiene, incontinence care, parenting as well as lymphology and wound care.

Increased net sales and improved profitability

Essity's net sales and adjusted EBITA[1)] increased by 8.0% and 12%, respectively, during the year. Organic sales increased by 1.2%. Excluding currency translation effects and the acquisition of BSN medical, adjusted EBITA[1)] increased by 1%. Essity's adjusted EBITA margin[1)] rose 0.5 percentage points to 12.3%. The adjusted return on capital employed[1)] was 14.9%. The Board of Directors proposes a dividend of SEK 5.75 per share.

2017 was a challenging year, with lower market growth and price pressure in parts of the business at the same time as raw material costs increased by approximately SEK 1.7bn. We have therefore intensified our work to achieve savings, which resulted in lower costs of approximately SEK 1.2bn. Through innovations, we have substantially improved the product mix in several areas. To further compensate for the higher raw material prices, we negotiated with many customers concerning price increases during the second half of the year.

Innovation and efficiency to achieve our goals

Essity's financial targets are annual organic sales growth of above 3% and adjusted return on capital employed of above 15%. To achieve these, we are working to improve underperforming market positions, enhance efficiency, reduce costs, and implement price increases and, through innovation, improve the product mix. Our focus on digitalization is continuing in all parts of the business. Our products are well suited to e-commerce and are currently available online in most markets, either via our own or external platforms. During the year, we entered into a partnership with Microsoft relating to the Internet of Things to further enhance our digital innovation and create market-leading digital products and solutions. We have launched Tork EasyCube™, web-connected dispensers for products such as soap and paper hand towels, which provides real-time information to optimize cleaning procedures.

"Essity targets continued growth, both organically and through acquisitions, at the same time as we improve profitability."

In the Personal Care and Professional Hygiene business areas, we are focusing on growth. In the Consumer Tissue business area, we are prioritizing increasing the margin and

[1)] Excluding items affecting comparability.

the return on capital employed. To improve margins and increase value creation in the Consumer Tissue and Professional Hygiene business areas, we have continued to work with Tissue Roadmap, a plan launched in 2016 to increase efficiency in tissue production, increase capital efficiency and ensure high-quality capacity for future growth.

Within the scope of the Group objective to contribute to a sustainable and circular society, we are working to minimize resource use and waste, which also results in cost savings for the company. Innovations have a key role to play in achieving a circular society. In 2017, under our globally leading Tork brand, we launched Tork PaperCircle™, a service that helps our customers to recycle used paper hand towels, and Tork PeakServe®, an efficient dispenser for paper hand towels specifically designed for busy washrooms.

A winning corporate culture

Our corporate culture is decisive for our continued success. During the year, we worked to develop our culture, which is characterized by commitment to results, care, collaboration and courage.

All employees are trained in our well-established Code of Conduct, which, for example, emphasizes zero tolerance for abuse, harassment, corruption and other unethical behavior.

Successful start to the integration of BSN medical

The acquisition of BSN medical, a leading medical solutions company within wound care, compression therapy and orthopedics, was closed in 2017. Integration work is progressing as planned and the business is included as the Medical Solutions product segment in the Personal Care business area. The acquisition has provided us with leading market positions in several attractive medical solutions product categories and a growth platform with future consolidation opportunities. Our incontinence business, with the globally leading TENA brand, shares similar positive market characteristics, customers and sales channels with Medical Solutions, which will provide opportunities for accelerated growth through cross-selling.

Initiatives and awards

Essity has a business strategy that includes economic, social and environmental perspectives to achieve long-term sustainable, efficient and profitable business. We received confirmation of this when we were named one of the world's top 100 most sustainable companies by Corporate Knights.

In addition, CDP, an international not-for-profit charity that promotes a more sustainable economy, named Essity as global leader in sustainable initiatives for water and wood fiber-based materials. CDP also stated that we have a leading role in climate work.

Essity was convening partner to the fifth annual meeting of the UN Foundation Global Dialogue, which brings together companies, authorities and NGOs to discuss how to achieve the UN Sustainable Development Goals. Essity supports the UN Global Compact.

On June 15, 2017, Essity was listed on Nasdaq Stockholm in Sweden.

Essity in five years

Essity targets continued growth, both organically and through acquisitions, at the same time as we improve profitability.

We will develop our culture to attract result-oriented employees who, through great dedication, will develop both Essity and themselves.

The world's population and life expectancy are on the increase at the same time as poverty is decreasing, meaning more people are using hygiene and health products to improve quality of life and well-being. There is great potential for Essity in emerging markets and our ambition is that these will account for a larger share of net sales in the future.

Innovation has the highest priority when it comes to meeting the needs of customers and consumers. We will continue to strengthen and develop our offering and brands. Digitalization is a top priority in our production, sales and marketing communication to increase growth, efficiency, market presence and profitability.

Every day, hundreds of millions of people use our products and solutions. By continuing to grow and develop as a company, we want to contribute to improve hygiene and health in the markets where we operate to improve people's well-being.

Magnus Groth

Magnus Groth
President and CEO

A new brand, name and logotype were developed, communicated and launched in 2017. The name Essity stems from the words "essentials" and "necessities". We are a leading global hygiene and health company offering products for "everyday necessities". Hygiene and health are the essence of well-being. Better hygiene and health are necessities for better lives and our products and solutions play an essential role in improving well-being.

United Nations Foundation Global Dialogue creates opportunities

We want to promote global dialogue about health and hygiene to emphasize the importance of these issues. To contribute toward the UN's 17 Sustainable Development Goals, we were – for the second consecutive year – a convening partner to the United Nations Foundation (UNF) Global Dialogue, held at the UN headquarters in New York. The forum invites businesses, NGOs and authorities to discussions to increase focus on the UN's 17 global goals. Essity's President and CEO Magnus Groth gave the opening and closing speeches at the UNF's Global Dialogue, addressing matters such as the importance of collaboration between different companies and organizations.

UNITED NATIONS FOUNDATION

THE GLOBAL GOALS
For Sustainable Development

Miroslav Lajčák, President of the UN's General Assembly and Magnus Groth, President and CEO of Essity, at the UN Foundation Global Dialogue in October 2017.

"Essentials Initiative"

Through Essity's "Essentials Initiative", we are pursuing a global dialogue to increase awareness of the importance of hygiene and health and their link to well-being. Two integral aspects of the "Essentials Initiative" are a global survey of attitudes to hygiene and health and a report. The 2016/2017 report looked at the economic value of investing in these areas, breaking taboos and stigma surrounding menstruation and incontinence, as well as innovative solutions for the future. The report was produced in collaboration with the UN's Water Supply and Sanitation Collaborative Council (WSSCC). The WSSCC is the main UN body that works solely with sanitation and hygiene issues.

"Like so many women, I have in the past felt so embarrassed that I have suffered in silence, but no more." Edwina White, who has lived with incontinence for more than ten years, is one of the persons portrayed in Essity's and the Fotografiska Museum's joint exhibition: Hygiene – A Circle of Life.

During the panel discussion in conjunction with the opening of the photographic exhibition, hygiene and health were discussed and how important these are for people's well-being. Ulf Wickbom, moderator, Archana Patkar, Head of Policy and Advocacy at the Water Supply and Sanitation Collaborative Council (WSSCC), Anna Rosling Rönnlund, Co-founder & Product Manager of Gapminder Foundation, Magnus Groth, President and CEO of Essity and Susanna Campbell, Chair of the Investment Committee at Norrsken Foundation.

Hygiene – A Circle of Life

Essity has entered into a three-year agreement with the Fotografiska Museum in Stockholm, Sweden. During the collaboration, Essity and Fotografiska will jointly produce photographic exhibitions on the theme of hygiene and health. Between November 2017 and January 2018, the "Hygiene – A Circle of Life" exhibition was held, where everyday hygiene situations were portrayed. The aim is to break the taboo around issues of hygiene, for example, menstruation and incontinence, and to continue pursuing a global dialogue around these issues.

A value-creating strategy

Essity's vision is: Dedicated to improving well-being through leading hygiene and health solutions. Our business operations are based on a sustainable business model, focused on value creation for people and nature. The business model and strategy is designed to maximize value creation for the company's stakeholders. By analyzing our external environment and the drivers and risks that impact us, we create a strategy for profitable and sustainable growth.

Drawing up Essity's business strategy, we analyze the trends and changes that continuously shape the market. We identify the macro-economic drivers that we believe are most relevant to our business in order to leverage the opportunities and to manage the associated risks. We must understand how trends can impact Essity and how the company can benefit from and respond to these. Risk assessment and risk management are part of the strategy process. Essity identifies the risks present and the potential implications these could have for the company. We maintain continuous dialogue with customers and consumers to develop products and solutions that meet needs and solve the challenges that many are facing in their everyday lives. The foundation of Essity's strategy is a materiality analysis where Essity and company's stakeholders prioritize the issues and areas that are deemed important for the company. Through this process, Essity creates a strategy for profitable and sustainable growth.

External trends and drivers

Global macrotrends, from increased population and higher living standards to resource shortages and climate change, have a major impact on Essity's business operations. We have identified a number of macro-economic drivers that are relevant to our business. By analyzing our external environment, we can capitalize on opportunities and avoid the risks associated with them.

Growing and aging population

The world's population is growing and living longer. The global population is today just over seven billion. The UN predicts that this figure will grow to more than nine billion by 2050.

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. Our presence in most of these markets and our offering of adapted products is thus strategically important. Essity is prioritizing growth in selected emerging markets, such as China, Southeast Asia, Latin America, Eastern Europe and Russia.

An aging population will put more pressure on the elderly care system and an increasing number of elderly people will require homecare. At the same time, we are continuing to lead active lives at an older age. More elderly people is increasing demand for incontinence and health products, both in mature and emerging markets. For example, the occurrence of incontinence among people over the age of 65 is expected to be between 15 and 20%.

Higher standard of living

At the same time as the population is growing, the level of poverty in the world is decreasing. An increasing number of people earn more than USD 2 per day (the World Bank's definition of poverty) or have moved into the middle class, meaning they earn more than USD 4 per day (according to the UN Millennium Development Goals Report 2015). Once people's most basic needs for food and shelter are met, hygiene becomes a top priority. Essity expects disposable income and higher living standards to continue to drive demand for hygiene and health products. In emerging markets, Essity sells hygiene and health products and solutions that are specially adapted to consumers with limited resources.

Global insight into hygiene and health

Limited or no access to hygiene and sanitation is one of the greatest global challenges. 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. Access to good personal hygiene impacts health, dignity and participation in society, such as in education and working life. Hygiene is a catalyst for economic growth. Hygiene is also key in avoiding the spread of infection, not only in the most basic situations and in emerging markets. Good hygiene also reduces the spread of, for example, antibiotic-resistant bacteria, which is a major challenge in modern healthcare. Essity continuously develops new hygiene and health solutions and is educating, for example, healthcare & medical staff in incontinence and good hand hygiene. Young women are educated about menstruation and puberty, and children and preschool teachers are taught about the importance of good hand hygiene. Incontinence products enable people to live more active and dignified lives. Though taboos and stigma exist about such issues as menstruation and incontinence in both emerging and mature markets. Improved knowledge is important to elevate hygiene and health standards as well as well-being.

Increased prevalence of chronic conditions and access to healthcare

Chronic diseases are on the increase in mature and emerging markets. Costs related to chronic diseases are rapidly increasing worldwide. Increased prevalence and greater life expectancy of people with chronic conditions are expected to drive demand for health products and thus innovations in wound care, compression therapy, orthopedics and incontinence products. At the same time as welfare states and healthcare budgets are under pressure in mature markets as a result of longer life expectancy and growing populations, healthcare investments are on the increase in many emerging markets in line with their economic growth. Regardless of where they take place, hygiene and health solutions are often investments that reduce total costs in society. For example, preventive initiatives, such as hand hygiene and good wound care, can reduce the risk of spreading infections.

Sustainable consumption and the circular economy

Limited resources, political priorities and knowledgeable, conscious customers and consumers are increasing expectations on, and demand for, sustainable products and solutions. Essity's ambition is to develop products and solutions that are compatible with a sustainable and circular society.

Circularity is a business model that involves striving to reduce resource consumption in the design of products and solutions and in connection with production and consumption, and to offer efficient reuse, recycling or composting of our products, which reduces consumer waste.

Digitalization

The digitalization of our society entails substantial changes and opportunities. Conditions are altered, new needs and business models arise and new players enter the market. For Essity, digitalization offers a variety of opportunities to improve and evolve all parts of our value chain, but it also presents challenges to identify sustainable and profitable business models. We are digitalizing production, administration and logistics to achieve efficiency and quality enhancements. In product development, we are working to create digital solutions that improve our offering to customers and consumers.

We communicate and interact with customers and consumers through social media and our product brand websites, such as www.tena.com, www.libresse.com and www.libero.com. For each year that passes, Essity's products are increasingly sold and marketed online.

The company behind the brand

More than ever before, customers and consumers are paying attention to the companies behind the products and solutions they buy and imposing greater demands on these companies in terms of corporate responsibility. Responsibility and sustainability are deeply integrated into Essity's business, which is based on a sustainable business model with focus on value creation for people and nature.

Scarce resources

As a result of the growing global economy and world population, an increasing number of people are now sharing the planet's resources.

Energy: The International Energy Agency (IEA) predicts that the global need for energy will increase by one third by 2040, which will probably entail higher costs, increased environmental impact and, in some cases, an energy shortage. As a major energy consumer, this is an important issue for Essity and we continuously work to enhance our energy efficiency. New technology is not only resource-efficient, but often also generates fewer emissions.

Water: The UN predicts that two thirds of the world's population may live in areas with water shortages by 2025. Access to water is critical for people, industry and agriculture. Essity's production operations are dependent on access to water and we therefore have ambitious targets for efficient and responsible water usage.

Responsible fiber sourcing: Illegal felling and felling of forests with a high conservation value contribute to global deforestation and constitute a threat to biodiversity. Essity has a Group target for checking the origin of all wood raw material and for purchasing certified fiber. We also use a large share of recovered paper in production.

Human capital: The economic progress of the world's emerging markets and increasingly knowledge-intensive business is increasing the need for skilled labor and management. We are investing in the development and training of our employees and taking a strategic approach to meeting future requirements for employees and expertise.

Climate change

Climate change is one of the most critical environmental and social issues facing the world today and the private sector is expected to play its part. Essity is actively working to combat climate change across the value chain. By conducting life cycle assessments, we can identify the areas of the value chain with the largest environmental impact. Initiatives can then target these areas to minimize climate impact.

In order to minimize our resource use, we work with innovations, efficiency enhancements, investments in new technology and increasing the share of renewable energy used at our sites.

UN's 17 Sustainable Development Goals

The UN's 17 global goals are a clear and welcome framework to address the world's challenges and opportunities. Public and private players have an important role to play. Essity's operations, focusing on hygiene and health, directly contribute toward some of the UN's 17 global goals (including goals 3, 5, 6, 12, 13 and 15). In 2017, Essity endeavored to set out the business opportunities these specific goals give rise to in, for example, hygiene and health and sustainable consumption and production. In so doing, we can contribute toward a more sustainable world while at the same time generating profitable growth for Essity. Through partnership with others who are facing similar challenges and also see opportunities, Essity hopes to create synergies that can contribute to sustainable progress.

Risks, external dialogue and materiality analysis

Essity is active in working together with various stakeholders to understand their needs and expectations on us and on our products and solutions. By working closely with our customers and consumers, we can develop long-term and sustainable relationships and can also gain valuable input for continuous improvements and ways of working.

Risks and opportunities

Essity is exposed to risks that could exert a greater or lesser impact on the company. The annual strategy process includes an analysis phase and assessment of the risks present in the business units. Risks may have a positive or negative impact on Essity. Correctly handled, they may entail business opportunities.

The responsibility for long-term and overall management of strategic risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to the Business Unit Presidents. 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 66–71.

Continuous dialogue

An active stakeholder dialogue is one way of ensuring that Essity's priorities and ways of working are relevant in today's society. Essity seeks to actively engage with customers, consumers, employees, investors, suppliers, media, NGOs, governments, politicians, decision-makers, regulators and academics. Millions of people across the globe have an impact on, and an interest in Essity's business. We must act in harmony with the society in which we operate in order to be relevant. An ongoing and responsive dialogue with our stakeholders helps us understand the expectations on us as a company and how we can develop and improve. It also helps us to understand the needs of our customers and consumers, build long-term relationships and to formulate and implement our business strategy.

Key areas for Essity and our stakeholders

The materiality analysis highlights the areas that are significant to us at Essity and to our stakeholders. It also forms the basis of Essity's strategy and sustainability work. The analysis is based on a survey conducted in 2017 of about 1,000 stakeholders including customers, consumers, suppliers, investors, analysts and employees. The stakeholder groups' results were weighted to provide a balanced view of the results.

Business ethics was ranked as the most important area. Free and fair competition is an important cornerstone in every society, and for every sustainable business operation. We have zero tolerance for all forms of corruption and unethical business practices and expect our suppliers to adhere to the same rules, in accordance with our Global Supplier Standard.

Innovation was ranked as the second most important area. By maintaining close proximity to our customers and consumers, understanding their needs and transforming this knowledge into products and solutions, Essity makes a positive difference in people's everyday lives, which strengthens our market positions and brands.

Customer and consumer satisfaction was ranked third. Customer understanding and consumer insight determine the innovations Essity develops and how finished products and solutions are delivered to the market. A dialogue with consumers is conducted through focus groups, in-depth interviews and other alternatives. Our sales representatives provide a great deal of know-how to the development work.

Health and safety are important to our stakeholders and critical for Essity's business. Essity's aim is zero workplace accidents. The health and safety of employees in the workplace has the highest priority. In addition to promoting health and safety at our own sites, we check suppliers' practices and collaborate with them to improve safety performance.

Strong brands and market positions are built on innovative products and solutions that simplify everyday life. Strong brands mean the company can increase the impact of its innovations. A strong corporate brand also enhances the company's potential to attract new employees.

Other key areas highlighted in the survey include transparency, human rights, resource efficiency, corporate governance and product safety. For more information, read pages 74–76.

Essity's strategic framework

Vision and mission

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**
- **Innovate** bigger **brands**
- Drive **efficiency**

Read more on pages **22–29**

Essity's vision has been broken down into four objectives and four strategies with clear connections to stakeholder groups, such as shareholders, customers and consumers, society and employees:

Our objectives

Generate increased shareholder value through profitable growth
One of Essity's objectives is to generate long-term value for its shareholders and that the Essity share will deliver a higher total shareholder return than competitors. In order to increase value creation and the total shareholder return, we focus on profitable growth. We are investing in future growth and working to increase profitability and grow where profitability is high.

Enable more people every day to enjoy a fuller life
What makes Essity successful is the understanding, knowledge and insight about the needs of customers and consumers and the ability to transform this into innovative offerings that increase quality of life and make everyday life easier for people. Essity strives to offer the best value for customers and consumers through value-added hygiene and health solutions for everyone. We adapt our offering to local and regional market conditions to increase hygiene and health standards worldwide. Essity wants to reach more people by promoting a global dialogue concerning hygiene, health and well-being.

Contribute to a sustainable and circular society
The circular economy is a business model that involves minimizing resource consumption and waste, and creating a closed loop for reusing, recycling or composting. Essity strives to minimize its environmental impact and to develop products and solutions that can be used in a circular society. Work contributing toward a sustainable and circular society requires new business solutions and innovations at the same time as new business opportunities are created.

Enable our employees to realize their full potential, as part of one winning team
Essity's success depends upon having motivated, competent and result-oriented employees. As a global employer, we aim to offer opportunities for current and potential employees to develop and realize their full potential. Essity wants to provide a strong company culture with an engaging and inclusive leadership based on our "Beliefs & Behaviors".

Our 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 competitor.

Focus on customers and consumers
Important competitive advantages for Essity are our understanding, knowledge and insight into the needs and purchasing behavior of customers and consumers, global expertise, strong customer relations and knowledge of local and regional market conditions. To understand their needs and expectations, we engage in a continuous dialogue with our customers and consumers.

Innovate bigger brands
Successful innovations and strong brands go hand in hand. Essity's innovation strategy is to consistently deliver better, safer and more environmentally sound products and solutions to our customers and consumers. We intend to increase the pace and impact of our innovations as well as capitalize on global economies of scale and ensure that all product segments have a competitive and balanced portfolio of innovations.

Drive efficiency
Essity is dedicated to improving efficiency in the entire value chain. By maximizing production, continuously finding ways of reducing material, energy and logistics costs and minimizing waste, we reduce our costs and improve our earnings at the same time as we reduce the environmental impact.

Generate increased shareholder value through profitable growth

One of Essity's objectives is to generate long-term value for its shareholders and that the Essity share will deliver a higher total shareholder return than competitors.

Dividend

Essity aims to provide long-term stable and rising dividends to its shareholders. The Board of Directors proposes a dividend of SEK 5.75 per share for the 2017 fiscal year. The 2017 dividend represents a dividend yield of 2.5%, based on Essity's share price at the end of the year.

Financial targets and outcome

Essity's financial targets are annual organic sales growth of above 3% and adjusted return on capital employed of above 15%. In 2017, organic sales increased 1.2% and adjusted return on capital employed amounted to 14.9%.

Profitable growth

Essity focuses on profitable growth in order to increase the Group's value creation and the total shareholder return. We prioritize to grow and invest in product categories and markets with high profitability. Investments are made in, for example, innovation initiatives, marketing activities and upgrades of machines or new machines. Regarding market positions with inadequate profitability, Essity is working to improve profitability. During 2017, Essity has, for example, continued to improve profitability and also increased organic sales for Incontinence Products in North America. We have taken the decision to discontinue operations in product categories and in markets where we concluded that the necessary investments are not expected to create value and where profitability cannot be improved within a reasonable time frame. Due to this, we discontinued the hygiene business in India in 2017.

Value-creating acquisitions

In addition to organic sales growth, Essity sees an opportunity to also grow through acquisitions. On April 3, 2017, the Group closed the acquisition of BSN medical, a leading medical solutions company. The acquisition was successfully integrated during the year. The acquisition is expected to generate at least EUR 30m in synergies with full effect three years after closing. The synergies concern both cost and sales synergies through cross-selling of Incontinence Products and Medical Solutions since these product segments share sales channels and customers in the healthcare sector.

Focus on cost and capital efficiency

Cost and capital efficiency has the highest priority to strengthen competitiveness and increase profitability and cash flow in the Group. We continuously strive for a more effective supply chain and for better leveraging economies of scale to achieve a more efficient value chain. During 2017, cost savings increased by SEK 1,231m, primarily related to greater savings in sourcing, material rationalizations and efficiency improvements in production.

Enable more people every day to enjoy a fuller life

What makes Essity successful is the understanding, knowledge and insight about the needs of customers and consumers and the ability to transform this into innovative offerings that increase quality of life and make everyday life easier for people. Essity strives to offer the best value for customers and consumers through value-added hygiene and health solutions for everyone. We adapt our offering to local and regional market conditions to increase hygiene and health standards worldwide. Essity wants to reach more people by promoting a global dialogue concerning hygiene, health and well-being.

"Essentials Initiative"

Every day, millions of women, men and children refrain from going to work or school or from taking part in social events because of hygiene and health-related concerns. The concerns or obstacles could be due to the lack of clean toilets or access to hygiene products, but also due to cultural taboos and stigma. For many people, this results in exclusion from society and for society this leads to a loss of economic value or increased costs. This means there is both a human and a business perspective to investing in hygiene and health and spreading knowledge about this.

Through Essity's "Essentials Initiative", we are conducting a global dialogue to increase awareness of the importance of hygiene and health and its link to well-being. Two integral aspects of the "Essentials Initiative" are a global survey of attitudes to hygiene and health and a report. The 2016/2017 report looked at the economic value of investing in these areas, breaking taboos and stigma, as well as innovative solutions for the future. The report was produced in collaboration with the UN's Water Supply and Sanitation Collaborative Council (WSSCC). The WSSCC is the main UN body that works solely with sanitation and hygiene issues.

Follow our global dialogue on www.essentialsinitiative.com.

Knowledge is key

By investing in knowledge about hygiene and health, we increase awareness and the use of hygiene and health products. Knowledge is key to increased hygiene and health standards in the world, at the same time as this creates business opportunities. In 2017, Essity provided training in hygiene and health to more than 2.5 million children, women and men, parents, relatives and caregivers globally.

In Feminine Care, our work includes educating teenage girls about menstruation, providing them access to feminine care products and helping to create a world where menstruation can be openly discussed. For example, Essity has school programs in several countries that inform girls about the physiological and emotional changes that girls experience during puberty and demonstrate the positive link between hygiene, the right hygiene products and well-being.

In Incontinence Products, Essity is conducting a dialogue to increase knowledge of incontinence and of available incontinence products. Incontinence affects 4–8% of the world's population, corresponding to approximately 400 million people. Essity offers solutions to manage incontinence and works to ensure that as many people as possible are given the right care and a dignified existence. We are, for example, involved in the Global Forum on Incontinence (GFI), which is a leading global forum for education and debate on incontinence and continence care, where patients and experts in care and health, decision-makers such as politicians, regulators and payers, as well as care providers and other interest groups from all over the world meet and exchange experiences, discuss research results and future solutions. It is a unique occasion for participants with differing perspectives and opportunities to exercise influence to meet and discuss how incontinence can be addressed, prevented and cured in the best possible way.

In Professional Hygiene, our education program includes hand hygiene. We are taking part in the Private Organizations for Patient Safety (POPS), an initiative supported by WHO, to save patient lives and protect employees in the healthcare sector. POPS comprises companies that together provide information and create awareness about the correct routines for hand hygiene in healthcare.

Presence in emerging markets

Every day, several hundred million people across the world use our products and solutions. We want to grow and offer hygiene and health products adapted to the needs of each consumer and thereby help to raise hygiene and health standards in the markets where we operate. The use of hygiene and health products is lower in emerging markets compared with mature markets. Increased disposable income leads to more people prioritizing hygiene and health, and poverty reduction leads to greater use of our products and solutions.

Essity and WSSCC break the silence surrounding menstruation

Menstruation and intimate hygiene for women are unfortunately often sensitive topics around the world. While in mature markets there is normally education and resources available to allow women to learn about menstruation and intimate hygiene from an early age, in emerging markets there is lack of information both in the home and in school where young girls can learn about menstruation and puberty. The taboos, ignorance and preconceptions surrounding menstruation are jeopardizing the health of millions of women every day, particularly in emerging markets. Essity is collaborating with the UN's WSSCC in order to break the taboos surrounding menstruation and to increase awareness of the importance of good hygiene during menstruation.

Contribute to a sustainable and circular society

Essity's objective is to develop products and solutions that contribute toward a sustainable and circular society. Circularity is a business model that involves striving to reduce resource consumption in the design of products and services and in connection with production and consumption, and to offer efficient reuse, recycling or composting of our products, which reduces consumer waste.

Working with a circular economy means we must constantly challenge ourselves and how we work with innovation and adapt our business models to support our objective.

Circular opportunities

Our product portfolio largely comprises of disposable products. In order to contribute to a sustainable and circular society, we are working to find business models that include the efficient collection of used products and a technology that separates the different materials used in the products in a way that creates new, attractive, recycled materials. With regards to paper recycling, the infrastructure is already in place in most of the countries where Essity operates. In 2017, we used 43% of recovered fiber in our production of tissue.

We are working together with other companies to achieve our objectives. We are a member of the Ellen MacArthur Foundation for Circular Economy (CE100), which supports companies and organizations that develop circular solutions. This membership offers, in addition to networking with other companies and sectors, also knowledge that leads to new perspectives toward our products and services.

Efficiency improvements in production

Essity continuously works to improve resource efficiency in the operations, for example through the Energy Savings and Efficiency (ESAVE) program, which since 2010 has resulted in a 9.4% reduction in energy used per ton of product produced, equivalent to a reduction in energy consumption by 1.2 TWh. In 2017, ESAVE projects were implemented resulting in a 0.4% reduction in energy used per ton of product produced. We also work with MSAVE, which is a similar program for raw materials aiming to optimize costs while minimizing environmental impact and waste from the raw materials.

Essity has a goal to recycle and use 100% of waste and bi-products from production. 62% is currently recycled.

Effective products for our customers

We also strive to deliver effective products and services that allow our customers to reduce their consumption. Under the Tork brand, we are continuously working with new and effective dispensers. These include Tork Xpressnap®, Tork SmartOne® and the latest innovation, Tork PeakServe®. Another example is TENA Solutions, which is a service where we can help nursing homes to optimize their incontinence care through an extensive analysis of operations. The result is improved well-being for care recipients, less resource consumption and lower total cost.

Tork PaperCircle™

The circular economy is becoming increasingly important and Tork PaperCircle™ is a good example of how we work together with our customers to lead the way for hygiene products. By utilizing this method, we can help our customers to close the circle by recycling used paper hand towels to manufacture new tissue products. German Commerzbank is part of a pilot project and recently expanded the service to 15 offices.

"By recycling we can lower our carbon footprint, and the buildings involved generate about 20% less waste. Tork PaperCircle™ establishes us as a recycling pioneer among German companies," says Dirk Middelmann, Corporate Real Estate Management, Commerzbank.

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

Our success depends upon having motivated, competent and result-oriented employees who show great dedication to developing themselves and the company. Every year, the organization's need for capabilities and resources is identified based on Essity's business strategy, internal demographics, and external challenges and opportunities in the form of demographics and trends among future workers. Of utmost importance for our success, is to address the increasing competition for talent in several areas and new demands from younger generations.

The foundation for our capability supply is that Essity is perceived as an attractive employer by both current and potential employees. During the year, Employer Branding activities were concentrated on making Essity known as a company, with a focus on both hygiene and health and on the new name. We are working proactively to build relationships with potential candidates, recruiting and spreading knowledge about Essity through close collaboration with universities and in social media. We maintain a close dialogue with students to identify what drives them and how they view potential employers.

In order to recruit talents in key areas, we run the "GO! Program". This offers recent graduates an opportunity for their first job, and aims to build know-how for more qualified roles when the program ends. Interest in the program, and the number of applicants, has increased every year and in 2017 more than 7,000 people applied for the approximately 70 jobs.

Every career is unique

We start with the idea that every career is unique. Development is achieved through a combination of training, coaching and new challenges in work. Our ambition is that all employees will reach their full potential, and assume personal ownership for driving their own development. Our ambition is that everyone shall have an individual development plan based on the needs of the company and the aspirations of the individual.

In 2017, the "Career Compass" was launched, which is a tool that explains the positions present in the company and the experience and capabilities needed for each position. During the year, we also launched a global learning management system that makes the range of learning activities available and transparent for all employees.

Successful leadership

Leadership is key to success and our leaders play a vital role in inspiring and challenging employees to develop and contribute towards achieving the business targets. We continuously pursue leadership development and in 2017, we continued to train and coach managers within the framework of our Group wide development program. During the year, we launched a new tool for change management, which was mainly rolled out to support managers in the integration of BSN medical.

Further development of a successful culture

Culture is critical for Essity's success. As part of establishing Essity, during the year we developed and begun introducing Essity's "Beliefs & Behaviors". This is a progression of our previous core values and, based on our long-term strategy and vision, what the company wants to strengthen. Four "Beliefs" are described; we are committed, we care, we collaborate and we have courage. A number of key behaviors are linked to each of these. This framework helps, for example, to clarify the importance of an inclusive attitude and gives direction for work with diversity, where the proportion of women/men in management positions is one important aspect.

Safe and healthy workplace

Everyone should feel safe when they work for Essity. This concerns both the physical work environment and a culture that prioritizes safety, respect and consideration for our colleagues. Sadly, a contractor was fatally injured during 2017 in a fire at our factory in Svetogorsk in Russia. The fatal accident emphasizes how important it is that health and safety efforts must always be prioritized and developed. Policies and management systems are in place. We also work with follow-up and control as tools to achieve better health and improved safety at our workplaces. Managers, employees and partners receive training on a regular basis and all Essity plants have special plans to improve safety at their facilities. It is important to create a culture that sees health and safety as the highest priority. Our annual global safety week is one example of how we work with this.

Employee relations

Transparent communication is fundamental to the trust between Essity and its employees, as well as their representatives. Employees are encouraged to raise issues concerning employment and health and safety with their immediate manager. Essity recognizes the right of all employees to join unions and to partake in union activities. When there is no union representation, Essity establishes other channels where possible, such as workers' councils.

All companies wholly owned by Essity are bound equally by the Code. We expect any business in which we have partial ownership to either adopt the Code or standards which are equivalent to those reflected in our Code.

During the year, Essity has developed and begun introducing its "Beliefs & Behaviors". Four "Beliefs" are described with key behaviors linked to each of these.

Win in chosen geographies and categories

We aim to hold a number one or number two position in the geographies and product categories where we choose 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 competitor. Essity is the global market leader in Incontinence Products under the TENA brand and in Professional Hygiene under the Tork brand. Essity also has strong brands and market positions in Baby Care, Feminine Care, Medical Solutions and Consumer Tissue under such brands as Jobst, Leukoplast, Libero, Libresse, Nosotras, Regio, Saba, Tempo, Vinda and Zewa.

Prioritized markets

Essity has a clear priority for which geographic markets it wants to operate in, and which categories it will offer in these markets. Sales are conducted in approximately 150 countries. In approximately 90 of these, Essity holds the number one or two position in at least one product segment. We prioritize investments and growth in market positions where profitability is high. By focusing on innovation and improving and expanding our customer and consumer offering, we strengthen our market positions and brands. Innovation and product launches are important for improving our price and product mix, and increasing our sales. Investments could, for example, take the form of innovation initiatives, marketing activities and upgrades of machines or new machines.

Addressing weak market positions

During the year, Essity continued work to address weak market positions with inadequate profitability. In, for example, Incontinence Products in North America, actions taken have led to continued profitability improvements, while organic sales have also increased. The hygiene business in India was discontinued in 2017 because of Essity's assessment that profitability could not be achieved within a reasonable time frame.

Launch of Lotus Baby in France

Essity's Lotus brand holds a strong position in consumer tissue in France. In 2017 we also launched Baby Touch diapers and wet wipes under the Lotus brand in the country.

Consumer Tissue in Mexico

In recent years, Essity's Regio brand has grown into what is now a market leader in consumer tissue in Mexico. To further enhance the product offering of high-quality tissue under the Regio brand and to increase the efficiency of production, while securing capacity for future growth, a decision was taken in 2017 to invest in tissue production in one of our facilities in Mexico.

Emerging markets

Essity aims to increase the emerging markets' percentage of net sales and earnings, since these markets' potential for growth is higher because market penetration of hygiene and health products is lower than in the mature markets. We are prioritizing growth in selected emerging markets such as China, Southeast Asia, Latin America, Eastern Europe and Russia, where we have strong market positions. In 2017, the emerging markets' share of net sales was 35% and organic sales in emerging markets increased 5.3% during the year.

Expanding the customer offering

To broaden our product categories and strengthen market positions, we work continuously to improve and expand our customer and consumer offering. For example, Essity offers wet wipes, skincare products and soap. Expanding the customer offering is also about providing service and solutions to customers and consumers.

Acquisition of BSN medical

The acquisition of BSN medical, a leading medical solutions company that develops, manufactures, markets and sells products within wound care, compression therapy and orthopedics, was closed in 2017. The business is included as the product segment Medical Solutions in our Personal Care business area and occupies leading market positions in a number of attractive medical solutions product categories. The acquisition creates a new growth platform for Essity in a new area with future potential for industry consolidation. Essity's incontinence business, with the globally leading TENA brand, shares similar positive market characteristics, customers and sales channels with Medical Solutions, which provides opportunities for accelerated growth through cross-selling.

Focus on customers and consumers

Important competitive advantages for Essity are our understanding, knowledge and insight into the needs and purchasing behavior of customers and consumers, global expertise, strong customer relations and knowledge of local and regional market conditions. To understand their needs and expectations, we engage in a continuous dialogue with our customers and consumers.

Essity's products and solutions help to simplify everyday life for many people. To succeed, we have to understand the needs of our customers and consumers and how we can best satisfy them. Customer understanding and consumer insight determine the innovations we develop and how we deliver finished products and solutions to the market. We want to contribute to improving the quality of life and well-being among our target groups.

We study the world around us and identify trends and new needs. We learn a lot from our sales representatives and we conduct regular customer satisfaction surveys. We engage in a dialogue with consumers through focus groups and in-depth interviews. We observe consumer and customer behavior, for example, through home visits. We also gain insight into the needs of consumers and their perceptions of our products by following the discussions on our websites, such as www.libero.com, www.libresse.com and www.tena.com, and on social media.

In 2017, Essity's efforts to contribute to increased quality of life and well-being included challenging the taboo that exists about menstruation in sports and fitness in order to improve the opportunities of girls to work out and compete. We also, for example, eased the workload of personnel at Gekås in Ullared, Sweden, and further developed our LymphCare online platform for improving life for people suffering from lymphedema.


© FC Rosengård

The Period Challenge

The aim of the Period Challenge is to improve the prerequisites for girls to train and compete by opening for a culture in sports clubs and teams that enables girls to talk openly about how menstruation affects the body and how they feel. Unfortunately, preconceptions that training during menstruation is harmful and impedes performance are not uncommon. Many girls are also worried that others will find out that they are menstruating. The Period Challenge urges girls to talk about how menstruation and the menstrual cycle affect the body's potential in connection with training. No one should have to suffer silently by not talking about menstruation.

https://mensutmaningen.se/start

The art of managing to refill paper hand towels for five million visitors

Gekås Ullared is a low-price department store in Sweden with nearly five million visitors annually. Each customer spends an average of four hours and 43 minutes in the store, which results in many visits to the 115 washrooms and considerable demands on the janitors for cleaning and refilling. During 2017, the latest paper hand towel innovation Tork PeakServe® facilitated cleaning for staff at Gekås and improved the customer experience.

Tork PeakServe® is specifically designed for high-traffic areas. With the highest capacity in the market, it can serve 250% more visitors between refills compared with a traditional paper hand towel dispenser. This results in fewer complaints about empty paper hand towel dispensers. The time cleaning staff save by less frequent refilling can be spent on other tasks to enhance the visitor's washroom experience. The system is easy to load, generates less waste and gives a more hygienic and pleasant washroom. Furthermore, the paper hand towels are compressed by 50%, which results in smaller pack sizes and thus reduced storage space requirements.

After a test of Tork PeakServe® at Gekås, the new system received the highest approval rating. And Gekås has chosen to install Tork PeakServe® in almost all washrooms in the department store. Ulrika Kerttu, site manager at Sodexo, the company that accounts for all cleaning at Gekås, says: "This system hasn't come a day too soon. We now have Tork PeakServe® throughout the store. It makes our job easier."

Talking about lymphedema and sharing experiences

Amy Santiago from Florida, USA, lived with undiagnosed lymphedema for 18 years. "I first noticed something wrong as a teenager, when my legs started swelling. It was only years later that I even heard the word lymphedema," says Amy. It was only when she was due to go into surgery that a doctor diagnosed her with primary lymphedema.

Our LymphCare program is designed to help people like Amy to manage their lives with lymphedema. It is a virtual tool that connects and engages patients and therapists. Read more about the LymphCare program at www.lymphcareusa.com/patient.html. It contains information on the latest product innovations and treatment options, and provides a supportive community environment in which they can talk about the disease. Patients can log into the website and collect such information as medical prescriptions, doctors' appointments and journal notations.

Since her diagnosis, Amy has taken part in a number of pageants to give a voice to lymphedema. She feels that sharing experiences is the first step to recovery. In fact, Amy volunteered to model garments for the JOBST® photo shoot in spring 2017. Amy wore the products that she currently uses, the JOBST® Elvarex daytime garment and the JOBST® Relax night-time garment.

"It's such an incredible feeling to see the growth and movement in talking about lymphedema. It has helped me to overcome mountains. It gives a voice to my story and shows that you don't have to suffer in silence", Amy says.

About lymphedema:
Lymphedema is a lasting swelling that can affect all parts of the body but usually arises in arms or legs. The swelling results from an impaired flow of lymphatic fluid through the lymphatic system. The predominant treatment for lymphedema is compression. Essity is the number one global provider of compression therapy products, offering medical compression garments such as stockings, bandages and dressings under the JOBST® brand.

Innovate bigger brands

Successful innovations and strong brands go hand in hand. Essity's innovation strategy is to consistently deliver better, safer and more environmentally sound products and solutions to our customers and consumers. We intend to increase the pace and impact of our innovations as well as capitalize on global economies of scale and ensure that all product segments have a competitive and balanced portfolio of innovations.

Innovation efforts driven by commitment, care and courage

During 2017, Essity launched 41 innovations that simplify everyday life for people and strengthen Essity's brands and market positions. Our innovations result from a well-established innovation process driven by committed employees in innovation teams worldwide that collaborate and share customer and consumer insights with the aim of improving quality of life for people.

Open innovations

As a natural part of our way of working with innovations, we embrace open innovations. We team up with the best players in the world and benefit from external resources and their knowledge to enable us to act fast in a world where trends and needs constantly change. One example is our partnership with the organization Plug and Play, which offers a global innovation platform that joins startups with larger established companies. Collaborations like this give rise to new business concepts, shorten project lead times, enhance output and value, while being resource effective at the same time.

Digital solutions

To ensure that we deliver value-added innovations, we work in many different ways to understand the circumstances, expectations and needs of customers and consumers. For example, we communicate and interact with customers and consumers through social media and on our brands' websites, including www.tena.com, www.libresse.com and www.libero.com. One example is the Libero Club, an online forum for families. More than 65% of all toddler parents and pregnant mothers in the Nordic region are members of the Libero Club. On the website www.libero.se/nya-liberoklubben,

Relaunch of Libero Newborn, Libero Comfort and Libero Up&Go in Russia

Russia is a market with great growth potential with its nearly two million babies born every year. To grow Libero in Russia we have launched an improved product offering combined with a campaign to build trust and to differentiate us from our competition. At the same time as the product has been improved, we have also improved the pack design by making it easier for the shopper to find the right pack on the store shelf. We have invested a great deal into understanding market and consumers needs in Russia, to meet their demands. By performing extensive consumer tests – in terms of products, communication and packaging among our target group – we know our target audience are positive to what we offer.

New TENA Lady Pants Discreet designed by Ceri Williams

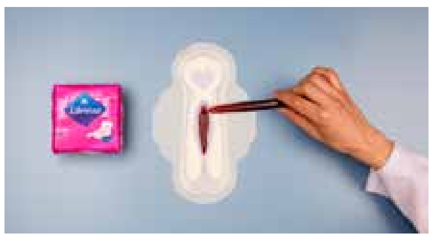
With the TENA Lady Pants Discreet launch, we took a major step to get as close as possible to real underwear. For the first time ever, we engaged a professional lingerie designer, Ceri Williams, who designs for top fashion brands, to contribute with her expertise and skill from the lingerie industry – resulting in a discreet and secure solution with enhanced underwear-like feeling strengthening the femininity of the users. TENA Lady Pants Discreet meets the consumer insights with respect to being discreet, having a good fit and feeling comfortable.

parents can read hundreds of articles about pregnancy and parenthood, share tips and get advice from Libero's own midwife.

We are working to develop digital solutions that add value and improve service for our customers and consumers. In 2017, we entered into a partnership with Microsoft around the Internet of Things, to enhance our innovation efforts and create market-leading, digital hygiene and health products and solutions. For a number of years, Essity has been working with solutions based on big data and the Internet of Things. Examples of previously launched digital solutions include TENA Identifi™, an innovative digital technology that allows for better incontinence care efficiency, and Tork EasyCube™, a web-connected dispenser for such products as soap and paper hand towels, which provides real time information to janitors and facility managers to ensure that these products are replenished in time.

Innovative and impactful marketing

To ensure successful launches of our innovations and to strengthen our brands, we need to be innovative also in our marketing. Essity's advertising campaigns are increasingly launched via social media. We want to create stories others like and share. In Feminine Care, under our Libresse and Bodyform brands for example, we are challenging the taboos surrounding menstruation. In 2017, we launched #bloodnormal, a film on digital and social media that use red liquid in place of blue to realistically depict periods. With more than 50 million impressions on social media, the campaign was successful in driving conversations and debate concerning menstruation. In the UK, parallel with this campaign, Essity arranged lectures at school led by experts from "The Self Esteem Team". The lessons were free and addressed problems related to mental health and self-esteem, and openly talked about menstruation.



In 2017, we launched #bloodnormal, a film on digital and social media that use red liquid in place of blue to realistically depict periods. See the entire film at https://www.youtube.com/watch?v=QdW6IRsuXaQ

Drive efficiency

During 2017, Essity achieved SEK 1,231m in additional cost savings. The cost savings resulted from Essity's focus on continuous improvements across the entire value chain. By maximizing production, continuously finding ways of reducing material, energy and logistics costs and minimizing waste, we reduce our costs and improve our earnings at the same time as we reduce the environmental impact.

Essity is working to leverage global economies of scale and expertise to streamline all parts of the business and establish a world-class supply chain. Two global units are responsible for sourcing, production, logistics and technology: Global Hygiene Supply Personal Care and Global Hygiene Supply Tissue.

Safety first

Essity's aim is zero workplace accidents. Sadly, a contractor was fatally injured during 2017 in a fire at our factory in Svetogorsk in Russia. The fatal accident emphasizes how important it is that safety efforts must always be prioritized and developed. Essity is working to nurture a culture where safety is top of mind and where unsafe working conditions and behaviors are immediately reported and rectified in order to prevent future accidents. Our employees continuously receive training so that everyone in the organization will be able to detect and eliminate hazards.

During 2017, the accident frequency rate decreased by 6% and in 2014–2017 it fell by 38%. The target is to reduce the accident frequency rate by 50% between 2014 and 2020.

Resource efficiency

To achieve the objective of contributing to a circular and sustainable society while increasing cost savings, Essity focused on reducing resource consumption during the year. Essity is operating two programs, ESAVE and MSAVE, designed to reduce energy and materials consumption. The aim of the programs is to achieve the best overall cost and minimize environmental impact. Our production facilities throughout the world share best practice and improvement measures to attain optimal results. The sourcing of raw materials is coordinated centrally in efforts to utilize economies of scale and during the year we increased savings when negotiating prices. In the Personal Care business area, a Flexibility Program was completed during the year aimed at qualifying new materials and suppliers more quickly, which contributed to further savings from sourcing.

During 2017, ESAVE projects were implemented that resulted in reductions in energy consumption by 0.4% per ton of product produced. Carbon emissions in relation to production level were reduced by 1.3%.

Digitalization for improved efficiency

Data analysis is used increasingly in production to increase product quality and reduce the risk of quality fluctuations. Using data analysis, we rapidly detect fluctuations and can establish the cause and thus take actions more quickly. This has led to higher product quality and also enables production to cope with a higher degree of complexity and a faster pace of innovation.

By equipping machines with QR codes, we have made it easier for our machine operators to quickly find relevant documentation about the machine, such as settings, technical drawings, work instructions and supplier data. The machine operators scan the QR code on the machine using a handset and gain direct access to relevant documentation, whereby, for example, production stops can be resolved more quickly.

ener.CON
EUROPE AWARD

ESAVE

Essity has received recognition for its efforts to combat climate change by means of improved use of energy. Essity recently won the ener.CON Europe Award 2017 for energy efficiency. Essity's approach in the area was praised; for example, a company culture characterized by resource-efficient thinking, behavioral change, smart investments and an advanced IT system that shares information globally in real time.

Digitalization for world-class production

During the year, the work to optimize asset utilization at our production facilities continued, for example, by reducing the number of unplanned stops, increasing machine speed and investing in digital solutions. Through digital solutions, such as self-regulating machines, smart sensors, data analyses and robotic process automation, we increase product quality, production pace and flexibility.

Essity's work on increasing machine efficiency enables more efficient utilization of existing production lines. The establishment of more efficient and flexible production facilitates speed to market in customer adaptations and innovations. Global Hygiene Supply cooperates closely with our innovation teams to develop the right technology and ensure access to optimal materials in order to safeguard speed and quality of our product launches.

Tissue Roadmap

To improve efficiency and increase value creation in the Consumer Tissue and Professional Hygiene business areas, Tissue Roadmap was launched in 2016. Through Tissue Roadmap, Essity is dedicated to achieving the lowest cost position combined with the best quality in each market in which we choose to compete. This is a roadmap to creating a world-class supply chain, improving cost and capital efficiency, securing capacity for future growth and enabling faster production adaptation in conjunction with innovations and product upgrades. The plan combines structural and organic efficiency opportunities in the supply chain with capacity expansion in selected markets.

To mitigate a tougher market with higher raw material costs, work under the Tissue Roadmap was intensified in 2017, resulting in increased cost savings.

During the year, Essity took actions to strengthen its tissue business in a number of markets. To meet growing demand for high-quality tissue and strengthen the product offering, Essity is investing in a through-air drying (TAD) machine in the UK. In addition, we closed an older tissue machine and divested a tissue production facility in the UK. To further strengthen competitiveness and enable future growth in Mexico, we decided to invest in one of the company's tissue production facilities in the country. The investment will support Essity's high-quality tissue offering under the Regio brand. In 2017, to further improve efficiency and strengthen the competitiveness of the Professional Hygiene business in North America, Essity closed a tissue production facility in the US.

Targets and outcomes

	TARGET	OUTCOME 2017
Organic sales growth Annual organic sales growth of above 3%.	>3%	1.2%
Adjusted return on capital employed Adjusted return on capital employed of above 15%.	>15%	14.9%
Capital Structure Policy 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 shall take into account the target to maintain a solid investment grade rating.		Essity had a solid investment grade rating.

Responsible sourcing

	TARGET	OUTCOME 2017
Global Supplier Standard We evaluate all of our supply streams from a total risk perspective. By 2020, we aim to source 100% of our procurement spend from suppliers committed to the criteria specified in our Global Supplier Standard.	100%	64%
Fiber Sourcing All fresh fiber in our products is to be FSC® or PEFC™ certified, or fulfill the FSC standard for controlled wood.	100%	99.9%

Resource-efficient production

	TARGET	OUTCOME
Employee Health and Safety Our aim is zero workplace accidents, and we will decrease our accident frequency rate by 50% between 2014 and 2020.	–50%	OUTCOME 2014–2017 –38%
Climate and energy We will reduce CO_2 emissions from fossil fuels and from purchased electricity and heating by 20% by 2020, with 2005 as reference year.	–20%	OUTCOME 2005–2017 –17.9%
Water By 2020, with 2014 as reference year, our plants will:		OUTCOME 2014–2017
• Reduce levels of suspended solids by 10%.	–10%	–19.7%
• Reduce water usage by 10%.	–10%	–4.7%
• Reduce organic content (BOD) by 10%.	–10%	–25.4%

Sustainable solutions

People and nature innovations
We will deliver better, safe and environmentally sound solutions to our customers. We strive to continuously improve resource efficiency and environmental performance considering the whole life cycle for new innovations.

TARGET
>33%

OUTCOME 2017
42%
Share of Essity´s innovations that yielded social and/or environmental improvements.

Hygiene solutions
We will make our knowledge about hygiene and health available to customers and consumers and ensure access to affordable, sustainable solutions to help them live a healthy, dignified and fuller life. In markets in which we operate, we will:
- Provide information and implement education programs on hygiene and health.
- Contribute to raising hygiene and health standards.

OUTCOME 2017
Essity held the number one or two position in at least one product segment in approximately 90 countries. Hundreds of millions of people used Essity's products every day. Worldwide, more than 2.5 million people were reached by hygiene and health training arranged by Essity. We offered a broad portfolio of products and solutions.

Waste management

Production waste
Materials and energy will be recovered from all waste from all production units by 2030.

TARGET
100%

OUTCOME 2017
62%

Business ethics and human rights

Code of Conduct
We will maintain compliance with our Essity Code of Conduct. All employees will receive regular training in the Code.

TARGET
100%

OUTCOME 2017
93%
of new employees

90%
of Essity's top and middle managers participated in Essity's Ethical Dilemma Training

Responsible sourcing

Essity's ambition is to promote sustainable and responsible business throughout its supply chain by choosing and rewarding partners who share our values and comply with our Code of Conduct and Global Supplier Standard.

Consumers and customers who use our products should feel secure in their safety and quality. They should also feel confident that the products are manufactured and supplied in a responsible and sustainable manner that never waivers in its respect for people and nature. To ensure this, our suppliers must sign our Global Supplier Standard and provide information about their health and safety agenda, working conditions, work environment and business ethics in the global database Sedex, and may be required to undergo an ethical audit depending on the results of our risk assessment. We constantly endeavor to further develop our procedures and processes in order to ensure that our sourcing is responsible.

Essity is one of the world's largest buyers of pulp fiber. As such, we have the opportunity to promote sustainable forestry at the global level by ensuring that Essity only purchases fresh fiber derived through responsible forest management – forests managed under good working conditions and with respect for biodiversity and the rights of indigenous communities. All of the wood fiber that Essity buys and uses in its production must be certified in accordance with the FSC® or PEFC™ standard. At a minimum, the fiber must meet the requirements of the FSC standards for Controlled Wood, which guarantee that the origin of the fiber has been controlled by an independent party. The target includes all deliveries of fresh fiber (pulp, packaging, mother reels and goods purchased by Essity from other suppliers). We engage in an ongoing stakeholder dialogue in order to manage risks in the supply chain. During the year, for example, we were involved in a dialogue with Greenpeace regarding fiber sourcing from the boreal forest region.

We continuously work to optimize our supplier structure. In 2017, we approved additional suppliers, making it possible to purchase under central agreements, which give us the opportunity to purchase large volumes on favorable terms, and to purchase certain materials locally, thereby reducing transportation and contributing to the societies where we operate.

Our work with fiber suppliers

Customers and consumers must be able to trust that all of the fiber components in an Essity product are derived through responsible forest management. In addition to following FSC and PEFC standards, we always conduct our own risk assessments of fiber suppliers based on our fiber policy. Suppliers are also required to answer a questionnaire and present a traceability certificate for the fiber pulp. We also enlist external help, such as satellite technology, to gain an overall view of the suppliers' operations and the challenges they present. We then carry out ongoing follow-ups with our suppliers and conduct site visits during which we inspect their work processes. Together, we can correct any deviations.

In conjunction with the FSC's General Assembly, Essity signed the Vancouver Declaration, a public promise made by companies across the globe to work towards more sustainable sourcing of forest products.

In 2017, 3.7 million tons of fresh fiber were delivered as timber, pulp, packaging, mother reels and products from a third party. 65% of the fiber was FSC/PEFC certified and nearly 35% fulfilled FSC criteria for controlled fiber.

In 2017, Essity was recognized as a global leader for its action on water and wood fiber-based materials by CDP, an international not-for-profit charity that promotes a more sustainable economy. From thousands of participating companies, Essity is one of only four to qualify for the CDP's A List for both Water and Forests. Essity also received a high score of A– for its management of climate-change risk.

Essity has shown its commitment to transparency by participating in the Environmental Paper Company Index 2017 (EPCI). The Group received an overall score of 78.7% and 94% for its responsible fiber sourcing.

At Essity, we are convinced that cooperation is a key aspect of ensuring that we are able to influence our suppliers. During the year, Essity joined the Better Cotton Initiative, which aims to improve the conditions for cotton growers.

Resource-efficient production

By being resource efficient, we reduce our climate impact throughout the value chain. We continuously endeavor to improve our energy efficiency and reduce the climate impact of our products, for example, by investing in new technology at our production facilities and through our energy-saving program ESAVE and material-savings program MSAVE.

Access to clean water is a key sustainability issue. Essity mainly uses water to transport fibers and as cooling water in the production process at its tissue production facilities. In addition to Essity's water usage, we have mapped out the impact of our raw material suppliers in order to understand the risks and establish relevant action plans for our own production processes and the supply chain. Every Essity facility works to treat, reduce and rationalize its water usage.

Resource-efficient production also entails a focus on eliminating production waste. Everything should be taken care of as part of an efficient ecocycle. Essity's target is for materials and energy to be recovered from waste from all production units by 2030. While several units already report zero production waste, a series of innovative measures to find suitable ways to recover Essity's various types of waste will be required to meet the new target.

Cuijk in the Netherlands

Essity replaced the dryer hoods in the tissue machine at its tissue plant in Cuijk in the Netherlands with a new, environmentally friendly technology. Energy efficiency has thereby increased by 10%, resulting in a reduction in CO_2 emissions. The company also replaced natural gas with biofuel in the plant's steam production. These measures resulted in cost savings and an annual reduction in CO_2 emissions of 13,000 tons.

Nokia in Finland

In 2017, Essity's tissue plant in the Finnish town of Nokia built a partially closed water system by installing larger water tanks. This resulted in a reduction in water usage of 25% (700,000 m^3). By reusing water that has already been heated, the plant can also save energy, leading to cost savings and lower CO_2 emissions.

Mannheim in Germany

Essity has invested EUR 7.7m in a new wastewater treatment technology in Mannheim, Germany. The new technology will reduce emissions of organic materials into effluent water (COD) by 20% and generate biogas to replace the use of natural gas as fuel, thereby cutting CO_2 emissions by 4,000 tons per year. The new wastewater treatment technology will also reduce the volume of production waste and the use of chemicals, resulting in cost savings.

Sustainable solutions

Improved health and hygiene are central aspects of Essity's business model. Poor hygiene and sanitation constitute a barrier for the health, livelihood, well-being, and development of millions of people.

This is one of the most important areas covered by the UN's 17 Sustainable Development Goals. It is also an area where Essity has the opportunity to make a significant contribution to achieving the goal, while at the same time generating profitable growth. Every day, several hundred million people across the world use our products and services. The more Essity grows and can supply products adapted to meet consumer needs, the more we can help to raise hygiene standards in the markets where we have operations.

Through innovation of products and services, challenges can be transformed into business models and form the basis for our future offerings. The aim of our innovation activities is to make improvements that benefit the user and the environment through improved function, design and raw materials, and more efficient technology or logistics. By conducting a life cycle assessment, we can focus on the innovations that have the greatest impact in terms of environmental performance.

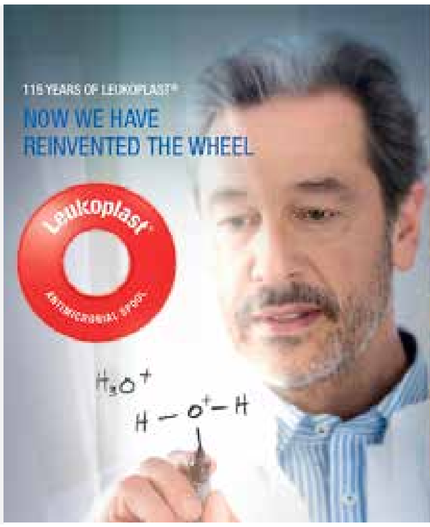
The materials we use in our products are safe for consumers, employees and the environment. We guarantee this by following the strict requirements and procedures in place for our various products. We also engage in a close dialogue with our suppliers and ensure that they comply with our Global Supplier Standard.

One of our targets is to make our knowledge about hygiene and health available to customers and consumers as well as providing access to sustainable hygiene solutions to help them lead a healthy and dignified life. We do so by providing information on hygiene and health matters around our products and services in the communities where Essity operates, for example, by educating girls about menstruation and puberty, teaching children about the importance of good hand hygiene, and educating nurses and care providers about incontinence care.

Leukoplast®

Today's widespread use of antibiotics may allow multi-resistant bacteria to develop and become life threatening. At the same time, healthcare-associated infections affect as many as 4–9% of all patients in mature markets. This entails a significant cost for the healthcare sector and society and, in many cases, a great deal of suffering for the patient.

We have therefore, developed the world's first spool for surgical tape with antimicrobial properties that reduce risk of cross-contamination in healthcare settings as well as the spread of Methicillin-resistant Staphylococcus aureus (MRSA).



Saba Buenas Noches

With a new technological specification, Saba Buenas Noches provides a more comfortable and secure solution, ensuring a better user experience as well as a good night's sleep. The new anatomical absorbent center (hump) stays close to your body where you need it the most, capturing and distributing the flow to avoid leakages.

Education in Latin America

In 2017, we educated some 1.1 million girls and young women at 8,500 schools in eight Latin American countries to help them understand the development and changes that happen during puberty. Using videos and discussions, we are able to provide these girls with knowledge and products that they might not always have access to otherwise. These courses, which we have been conducting for nearly 30 years, allow us to get to know our customers and users while giving them an opportunity to learn how to use hygiene products, pads and tampons in a hygienic way during menstruation.

Examples of customer awards in 2017

"Non-Edible Grocery Supplier of the Year"
from the ASDA retail chain in the UK

"Supplier of the Year for Outstanding Cooperation and Support"
from Network, an organization with 75 independent distributors in North America

"Top Non-Grocery Supplier"
from the Wal-Mart retail chain in Mexico

"Best Collaboration and Proactivity"
from the Office Depot Europe office supply company in the UK and Ireland

"Cornerstone Partner Award"
from Gordon Food Service (GFS) in North America

"Best Supplier"
from Intrakoop in the Netherlands, Group Purchase Organization for Healthcare

"Out of Home Award"
in the Catering category in the Netherlands

New generation of Libero Up&Go, Nordic

Libero is the market leader in the Nordics and this is the biggest relaunch of Libero Up&Go since its introduction 25 years ago. The new generation of Libero Up&Go is softer and more pliable, giving a flexible fit and higher leakage security and providing superior comfort for the baby. The carbon footprint is reduced by 4%.

All Libero diapers in the Nordic region have the Nordic Swan label and the FSC (Forest Stewardship Council) label.

After-use management

Tork PaperCircle™

With the Tork PaperCircle™ service, Essity is helping to advance the standards for recycling of used paper hand towels. The solution is designed for customers such as universities, property companies and airports, where paper hand towels often account for a significant portion of the total volume of waste. Until now, it has been difficult to recycle paper towel due to strict hygiene requirements and technical barriers. However, our pilot projects in the Netherlands and Germany have shown that it is possible to collect used paper hand towels and send them to a nearby Essity plant, where they can be converted into tissue products. This process can reduce the product's carbon footprint by at least 40%[1].

[1] For paper towel, compared with current waste handling options. Based on an LCA verified by the Swedish Environmental Research Institute (IVL) in 2017, where the rationalized processes have been taken into account.

On October 18, 2017, Essity received an honorary mention at the European Paper Recycling Awards held by the European Parliament for its work on Tork PaperCircle™.

Access to hygiene and health products and solutions is vital when it comes to ensuring people's right to good health and livelihood, and the development of society. As a company offering these products, Essity aims to assume responsibility for the entire life cycle of its products, even after they have been used.

By conducting a life cycle assessment, we can identify the areas of the value chain with the largest environmental impact and thus focus our efforts to achieve the best results. We continuously strive to make more efficient use of our resources and develop products designed to reduce consumption and thereby waste. For example, the development of thinner and more efficient products may require less material and reduce the volume of waste.

Another way of reducing our environmental impact is through responsible handling of production and post-consumer waste, thereby contributing to a sustainable and circular society. One example is our tissue, which is made using a significant portion of recovered fiber. Several of the markets where Essity operates already have the infrastructure to collect used paper and sell it to companies that use recovered fiber.

For our products in the Personal Care business area, energy recovery through combustion is a good alternative since there are currently no business models established for recycling used products. Although technologies exist for separating the various materials included in the products, the value of the new recovered materials is limited due to combinations of several different materials and impurities from bodily fluids and medicine. We work together with external partners to solve the challenges that arise in order to create attractive, competitive new recovered materials.

One path forward is our membership in CE 100 within the Ellen MacArthur Foundation. We are convinced that partnerships are the best way to develop new solutions to create value after use. In 2017, we worked together with various partners to promote the advantages of renewable materials from a circular perspective. Renewable materials have a lower climate impact and can be recycled and, in certain cases, composted.

CE100

Business ethics and human rights

Essity's Code of Conduct is a cornerstone in our efforts to ensure that our business operations are responsible and that we conduct ourselves with integrity in our interactions with our stakeholders.

Training is an important tool to help employees act in accordance with the Code, including training for new employees and further training. In 2017, 93% of Essity's new employees received training in the Code of Conduct. Ethical business practices, good working conditions, zero tolerance of harassment and respect for human rights are a few of the focus areas of this training. We continuously strive to achieve a culture of integrity by integrating the Code of Conduct into all areas of the business. Our goal is to evaluate all of our supply streams from a total risk perspective. Essity employs a Global Supplier Standard. Suppliers who have undertaken to follow the criteria in this standard accounted for 64% of Essity's procurement spend in 2017. The goal is that 100% of our suppliers will follow these criteria by 2020.

In 2016, we launched a program for responsible management. The program comprises a theory portion, which emphasizes how managers should act to avoid creating a work environment that encourages employees to behave unethically, and a game, where participants are presented with various dilemma situations and given the opportunity to discuss and navigate difficult situations. In 2017, just over 2,200 managers and employees completed the program, corresponding to approximately 90% of Essity's top and middle managers. To assess the impact of the program, an anonymous evaluation was carried out in conjunction with the workshop. The results showed that 89% felt the training had resulted in a more open climate for discussing ethical dilemmas.

Another key factor for creating a good workplace with sound values is an open culture where people feel comfortable addressing unacceptable behavior, such as discrimination and harassment. In connection with the #metoo campaign, Essity's employees were reminded of the company's Code of Conduct and zero tolerance of all forms of harassment through various activities and on the intranet. Employees were also encouraged to report any breaches of the Code of Conduct through Essity's various internal and external reporting channels.

Workshops on human rights

Human rights remain an important focus area for Essity's work to create a responsible and sustainable value chain. In 2016, a new training program was established to help Essity's various units to identify any local areas at risk of human rights violations. The program includes an introduction to the framework for human rights and an exercise to practice mapping out the units' impact on human rights.

In 2017, seven workshops were carried out in three countries in Latin America with a total of 94 participants. As a result of these workshops, the units decided to continue working on such areas as fair wage structures, safety on the way to and from work, and working conditions at employment agencies. By the end of 2017, action plans were in place for all risk areas at each unit, of which 72% have been carried out to date.

The Essity share

On June 15, 2017, Essity Aktiebolag (publ) was listed on Nasdaq Stockholm in Sweden. Essity shares are quoted and traded on Nasdaq Stockholm, and as American Depository Receipts (ADR level 1) in the US through Deutsche Bank. The final 2017 closing price on Nasdaq Stockholm for Essity's B share was SEK 233.00. Essity's market capitalization was SEK 164bn at December 31, 2017. In the period June 15–December 31, 2017, the price of Essity's B share fell 6%. During the same period, the OMX Stockholm 30 Index fell 3%. The highest closing price for Essity's B share during the year was SEK 252.10, which was noted on December 5. The lowest closing price was SEK 215.50 on August 21. The proposed dividend is SEK 5.75 per share. For more information, refer to the section Dividend and dividend policy.

Index

On Nasdaq Stockholm, Essity is included in the OMX Stockholm 30 Index, OMX Nordic 40 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 within Consumer Staples. Essity is also represented in sustainability indexes such as the FTSE4Good Global index, which measures earnings and performance among companies that meet globally recognized norms for corporate responsibility. Essity is also included in the ECPI index and Global 100 index.

Liquidity

In 2017, the volume of Essity shares traded on Nasdaq Stockholm was about 180 million, corresponding to a value of approximately SEK 42bn. Average daily trading for Essity on Nasdaq Stockholm amounted to approximately 1.3 million shares, corresponding to a value of approximately SEK 306m. During the year, trading on Cboe amounted to approximately 25 million Essity shares, trading on Turquoise to about 5 million Essity shares and trading on other marketplaces to approximately 1 million Essity shares.

Ownership

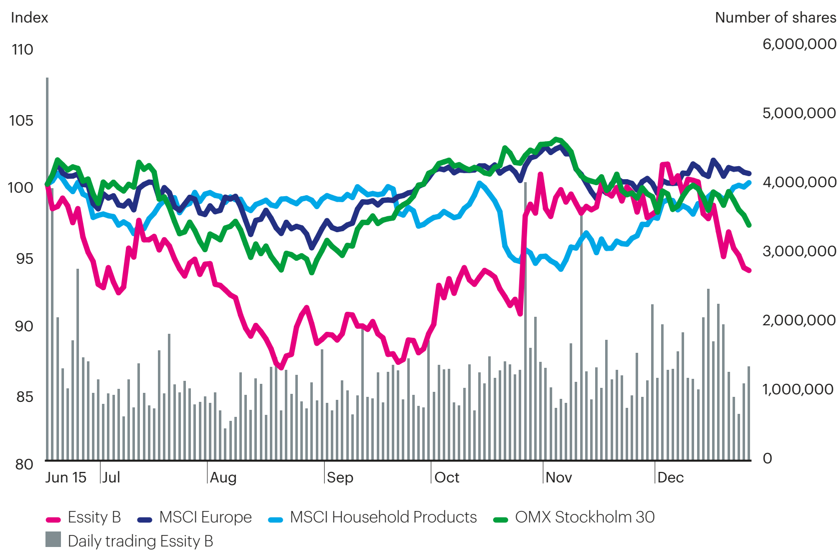
Some 44% of the share capital is owned by investors registered in Sweden and 56% by foreign investors. The US and the UK account for the highest percentage of shareholders registered outside Sweden. Of Essity's shareholders, at least 23% perform sustainability assessments.

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 a dividend of SEK 5.75 per share for the 2017 fiscal year. The 2017 dividend represents a dividend yield of 2.5%, based on Essity's share price at the end of the year.

Share price performance June 15, 2017–December 31, 2017



Distribution of acquisition cost for SCA shares in connection with the distribution of shares in Essity Aktiebolag (publ)

The Tax Agency has decided that of the acquisition cost for Class A shares in SCA AB, 21% should relate to these shares and 79% to Class A shares received in Essity Aktiebolag (publ). Of the acquisition cost for Class B shares in SCA AB, 20% should relate to these shares and 80% to Class B shares received in Essity Aktiebolag (publ).

Essity's ten largest shareholders

At December 31, 2017, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights:

Shareholders	No. of A shares	No. of B shares	Votes (%)	Capital (%)
AB Industrivärden	35,000,000	31,800,000	29.8	9.5
Norges Bank Investment Management	8,056,104	25,625,076	8.3	4.8
MFS Investment Management		35,119,983	2.7	5.0
SHB Oktogonen Foundation	3,000,000		2.3	0.4
AMF Insurance and Funds	430,000	24,009,053	2.2	3.5
Swedbank Robur Funds		25,496,216	2.0	3.6
Skandia	2,009,210	2,382,683	1.8	0.6
SHB Pension Fund	1,303,000		1.0	0.2
First Swedish Pension Insurance Fund		12,205,690	1.0	1.7
SCA Employee Foundation	982,845	74,406	0.8	0.2

Source: Euroclear

Data per share

All earnings figures include items affecting comparability unless otherwise indicated.

SEK per share unless otherwise indicated	2017
Earnings per share	11.56
Adjusted earnings per share[1]	13.09
Market price for B share:	
Average price during the year	233.87
Closing price, December 31	233.00
Cash flow from current operations[2]	12.45
Cash flow from operating activities	18.12
Dividend[3]	5.75
Dividend yield, %	2.5
P/E ratio[4]	20
P/E ratio, excluding items affecting comparability[4]	19
Price/EBITA[5]	17
Price/EBITA, excluding items affecting comparability[5]	16
Beta coefficient[6]	0.58
Pay-out ratio, %	50
Equity	71
Number of registered shares December 31 (millions)	702.3

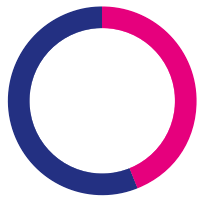
[1] Excluding items affecting comparability and amortization of acquisition-related intangible assets.
[2] See definitions of key figures on page 172.
[3] Board proposal.
[4] Share price at year-end divided by earnings per share.
[5] Market capitalization plus net debt plus non-controlling interests divided by EBITA. (EBITA = operating profit before amortization of acquisition-related intangible assets).
[6] Share price volatility compared with the entire stock exchange (measured from June 15, 2017).

Shareholder structure, as of December 31, 2017

Holding	No. of shareholders	No. of shares	Holding (%)	Votes (%)
1–500	58,845	9,381,628	1.34	1.55
501–1,000	12,376	9,482,263	1.35	1.54
1,001–5,000	12,992	28,027,795	3.99	4.68
5,001–10,000	1,669	11,947,869	1.70	1.90
10,001–15,000	477	5,964,061	0.85	0.88
15,001–20,000	267	4,700,910	0.67	0.57
20,001–	1,212	632,837,963	90.10	88.88
Total	**87,838**	**702,342,489**	**100.0**	**100.0**

Source: Euroclear

Percentage of foreign ownership, capital as of December 31, 2017



Source: Euroclear

Earnings per share, 2017

SEK 11.56

Proposed dividend per share, 2017

SEK 5.75

Essity is included in the following sustainability indexes

ECPI Sense in sustainability

FTSE4Good

2018 GLOBAL 100

Share distribution, as of December 31, 2017

	Class A	Class B	Total
Number of registered shares	64,140,438	638,202,051	702,342,489

Ticker names

Nasdaq Stockholm	ESSITY A, ESSITY B
New York (ADR level 1)	ESSYY

Share capital development

The table below shows the development of the Company's share capital since 2016.

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
2016	New issue	4,000	–	5,000	–	5,000	400,000	500,000	100
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	–584	584	64,593,939	637,748,550	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.

Information to shareholders

Annual General Meeting 2018 April 12

The Annual General Meeting of Essity Aktiebolag (publ) will be held on Thursday, April 12, 2018 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 1:30 p.m.

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, April 6, 2018, and
give notice of their intention to attend the meeting no later than Friday, April 6, 2018.
Notification may be given in any of the following manners:

- by telephone at +46 8 402 90 80, weekdays between 8:00 a.m. and 5:00 p.m.
- on the company's website: www.essity.com
- by mail to Essity Aktiebolag (publ), Group Function Legal Affairs, P.O. Box 200, SE-101 23 Stockholm, Sweden

To be entitled to participate in the Annual General Meeting, the following applies for shareholders whose shares are registered through a bank or other nominee: In addition to giving notification of attendance, shareholders must request that their shares be registered in the shareholders' register under their own names. Such registration must be completed at Euroclear Sweden AB not later than Friday, April 6, 2018. In such cases, the shareholders in question should instruct the bank or nominee of this well in advance of Friday, April 6, 2018. Such registration may be temporary.

The shareholder's 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 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
- Petter Johnsen, Norges Bank Investment Management
- Stefan Nilsson, Handelsbanken Pension Funds and others
- Javiera Ragnartz, 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.

Dividend

The Board of Directors proposes a dividend of SEK 5.75 per share and that the record date for the dividend be Monday, April 16, 2018. Payment through Euroclear Sweden AB is expected to be made on Thursday, April 19, 2018.

Proposed dividend per share

5.75

SEK

Annual and Sustainability Report 2017

Read the Annual and Sustainability Report 2017 digitally on your computer, tablet or mobile phone. Meet Essity's President and CEO Magnus Groth, who presents a brief summary of 2017. Visit www.essity.com/asr17.

Financial information 2018–2019

Interim report	(Jan 1–Mar 31, 2018)	April 27, 2018
Half-year report	(Jan 1–Jun 30, 2018)	July 19, 2018
Interim report	(Jan 1–Sep 30, 2018)	October 29, 2018
Year-end report	2018	January 31, 2019
Annual and Sustainability Report	2018	March 2019

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.

Annual and Sustainability Reports can also be ordered from:

Essity Aktiebolag (Publ)
Group Function Communications
Box 200
SE-101 23 Stockholm, Sweden
Tel +46 8 788 51 00

Subscriptions to publications

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.

Essity's three business areas

Personal Care

Essity is a leading global player in personal care. Our offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Products are sold under brands such as Jobst, Leukoplast, Libero, Libresse, Nosotras, Saba and the globally leading brand TENA, and as retailers' brands.

READ MORE ON PAGES 46–51

Consumer Tissue

Essity is the world's second largest supplier of consumer tissue. Our 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, and as retailers' brands.

READ MORE ON PAGES 52–55

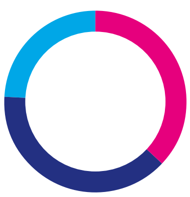
Professional Hygiene

Essity is the world's largest supplier of products and solutions in the market for professional hygiene under the globally leading Tork brand. Our offering comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, Internet of Things sensor technology as well as service and maintenance.

READ MORE ON PAGES 56–59

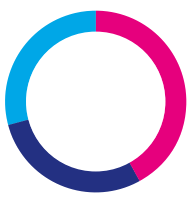
Share of Group, 2017

NET SALES



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

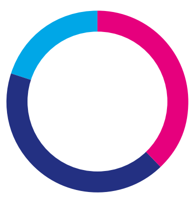
ADJUSTED EBITA[1)]



- Personal Care, 42%
- Consumer Tissue, 29%
- Professional Hygiene, 29%

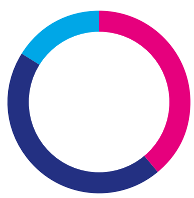
[1)] Excluding items affecting comparability

CAPITAL EMPLOYED



- Personal Care, 38%
- Consumer Tissue, 42%
- Professional Hygiene, 20%

NUMBER OF EMPLOYEES



- Personal Care, 39%
- Consumer Tissue, 45%
- Professional Hygiene, 16%

The global hygiene and health market

The markets for personal care and tissue are described below. The market for personal care comprises the market for Essity's Personal Care business area and the market for tissue comprises the market for Essity's Consumer Tissue and Professional Hygiene business areas.

In 2017, the global hygiene and health market amounted to approximately SEK 1,090bn, of which the global market for personal care accounted for approximately SEK 540bn and the global market for tissue accounted for approximately 550bn. The global market for personal care is divided into baby care (approximately SEK 230bn), feminine care (approximately SEK 125bn), incontinence products (approximately SEK 90bn) and medical solutions (approximately SEK 95bn). The global market for tissue is divided into consumer tissue (approximately SEK 405bn) and professional hygiene (approximately 145bn).

Market growth is positively impacted by global hygiene and health trends and increased awareness of the importance of hygiene to improve health and avoid diseases, especially in emerging markets.

The global market for hygiene and health products was challenging during 2017.

Tissue market

Shifts in global demographics such as population growth, due primarily to a lower infant mortality rate and increased longevity, and higher disposable income point to continued good growth for tissue. The effect of higher disposable income is that more people prioritize hygiene when food and housing needs have been, or are in the process of being, satisfied. The growth potential for tissue is considered greatest in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, improved infrastructure and the retail trade are evolving rapidly. One example of the lower market penetration in emerging markets is that tissue consumption per capita per year in Eastern Europe is only about one-third of that in Western Europe. Growth is also occurring in mature markets owing to lifestyle changes and innovations that lead to increased use.

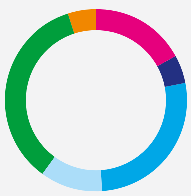
In 2017, the European market for consumer tissue showed low growth and increased competition. The Chinese consumer tissue market noted higher demand.

The European and North American markets for professional hygiene displayed low growth.

Essity's competitors in tissue include Georgia-Pacific, Hengan, Kimberly-Clark and Sofidel.

Hygiene and health market

Global market by region



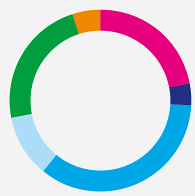
- Western Europe, 17%
- Eastern Europe, 5%
- North America, 27%
- Latin America, 11%
- Asia, 35%
- Other, 5%

Consumer Tissue and Professional Hygiene

Essity's market positions

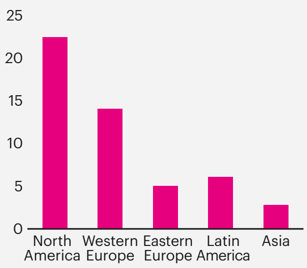
	GLOBAL	EUROPE	NORTH AMERICA	LATIN AMERICA	ASIA
Consumer Tissue	2	1	–	3	1
Professional Hygiene	1	1	2	4	3

Professional Hygiene – global market

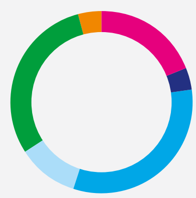


- Western Europe, 22%
- Eastern Europe, 4%
- North America, 35%
- Latin America, 11%
- Asia, 23%
- Other, 5%

Use of tissue



Consumer Tissue – global market



- Western Europe, 19%
- Eastern Europe, 4%
- North America, 32%
- Latin America, 11%
- Asia, 30%
- Other, 4%

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

Personal care market
Growth in consumption of personal care is supported by favorable demographic trends in emerging and mature markets. Shifts in global demographics such as population growth, due primarily to a lower infant mortality rate and increased longevity, and higher disposable income point to continued good growth for personal care. The effect of higher disposable income is that more people prioritize hygiene when food and housing needs have been, or are in the process of being, satisfied. The growth potential for personal care is greatest in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, improved infrastructure and the retail trade are evolving rapidly. 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. 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 may be due to lack of awareness and the stigma associated with incontinence.

Incontinence, which is classified as a disease by the World Health Organization (WHO), affects 4–8% of the world's population, corresponding to approximately 400 million people. Many indicators point to the proportion of people affected increasing on a global scale as a result of an aging population. By 2020, the population of the world over the age of 60 is expected to have increased to over one billion. The occurrence of incontinence among people over the age of 65 is expected to be between 15 and 20%.

An aging population and increased prevalence of chronic conditions are expected to increase demand for incontinence products and medical solutions.

In 2017, the European and North American markets for incontinence products in the healthcare sector displayed higher demand, although with continued price pressure as a result of fierce competition, while the retail markets showed good growth but with a continued high level of competition. Emerging markets showed higher demand. The global market for medical solutions demonstrated stable growth. In Europe, demand for baby care and feminine care was stable. In emerging markets, demand rose for baby care and feminine care. The global market for baby care and several markets for feminine care were characterized by increased competition and campaign activity.

Essity's competitors in personal care include Kimberly-Clark, Procter & Gamble, Unicharm and 3M.

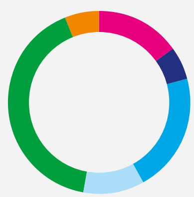
Personal Care

Essity's market positions

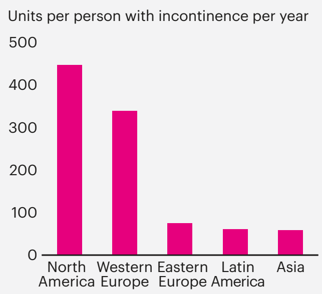
	GLOBAL	EUROPE	NORTH AMERICA	LATIN AMERICA	ASIA
Incontinence Products	1	1	4	1	4
Baby Care	5	2	–	6	6
Feminine Care	6	3	–	1	10
Medical Solutions[1]	4	1	12	1	2

[1] In medical solutions, in the market in which the company is active, Essity is the world's fourth largest player.

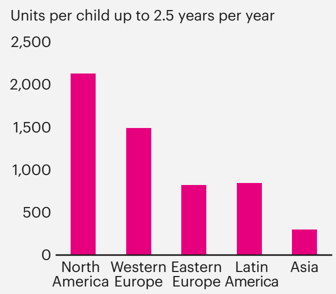
Personal care – global market



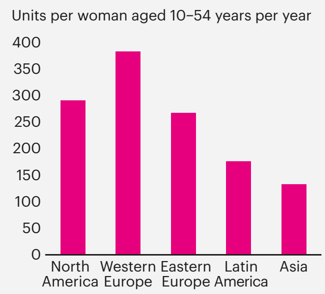
Use of incontinence products



Use of baby care



Use of feminine care



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

Personal Care

Essity is a leading global player in personal care. Essity's Personal Care offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions.

Products are sold under brands, such as Jobst, Leukoplast, Libero, Libresse, Nosotras, Saba and TENA, and as retailers' brands. The globally leading brand for incontinence products, TENA, is Personal Care's largest brand a "billion-dollar brand", meaning a brand with annual sales exceeding USD 1bn. Distribution channels for the products are the retail trade, online sales, pharmacies and care institutions.

Personal Care generated approximately SEK 41bn in net sales in 2017, which accounted for 37% of Essity's net sales for 2017. At the end of 2017, Personal Care had production at 36 sites in 24 countries. In 2017, Essity acquired BSN medical, a leading medical solutions company. BSN medical constitutes Medical Solutions and was included in Personal Care as of the second quarter of 2017.

Examples of brands

Operations in 2017

Net sales

SEK 40,586m

Organic sales

+1.8%

Adjusted EBITA[1)]

SEK 5,937m

Adjusted EBITA margin[1)]

14.6%

Adjusted return on capital employed[1)]

20.5%

Net sales increased 20.6% to SEK 40,586m (33,651). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.8%, of which volume accounted for 2.2% and price/mix for –0.4%. The closures of the Baby Care business in Mexico and the hygiene business in India negatively impacted organic sales by approximately 1%. Organic sales in mature markets increased by 1.7%. In emerging markets, which accounted for 37% of net sales, organic sales rose 2.0%. The acquisition of BSN medical increased net sales by 18.7%. Exchange rate effects increased net sales by 0.1%.

For Incontinence Products, under the globally leading TENA brand, organic sales increased 2.7%. Growth is related to emerging markets, North America and Western Europe. The European retail sector reported good growth, while lower sales to the healthcare sector had a negative effect on growth. For Baby Care, organic sales decreased 2.5%. The decline was mainly the result of the closures of the Baby Care businesses in Mexico and India, as well as lower sales in Russia. In Europe, organic sales increased for Baby Care. For Feminine Care, organic sales increased by 3.7%, related to Latin America and Asia.

Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1)] rose 39% (11% excluding currency translation effects and acquisition) to SEK 5,937m (4,283). The increase was mainly related to the acquisition of BSN medical, higher volumes, cost savings, increased profitability for Incontinence Products in North America and the closures of the Baby Care business in Mexico and the hygiene business in India. Higher raw material costs, lower prices and increased investments in marketing activities negatively impacted earnings. The acquisition of BSN medical increased profit by 27%.

Adjusted EBITA margin[1)] was 14.6% (12.7).

Adjusted return on capital employed[1)] was 20.5% (31.8%).

Operating cash surplus amounted to SEK 7,238m (5,314).

Operating cash flow totaled SEK 5,453m (4,723).

Capital expenditures amounted to SEK 2,074m (1,896).

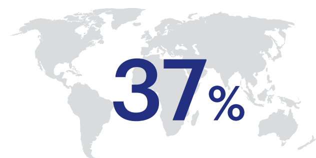
[1)] Excluding items affecting comparability.

Key figures

SEKm	2017	2016
Net sales	40,586	33,651
Operating cash surplus	7,238	5,314
Change in working capital	–237	289
Current capital expenditures, net	–1,282	–805
Other operating cash flow	–266	–75
Operating cash flow	5,453	4,723
Adjusted EBITA[1)]	5,937	4,283
Adjusted EBITA margin[1)], %	14.6	12.7
Capital employed	39,447	13,665
Adjusted return on capital employed[1)], %	20.5	31.8
Strategic capital expenditures		
plant and equipment	–792	–1,091
company acquisitions/divestments	–26,041	197
Average number of employees	17,088	13,237
No. of employees at Dec. 31	18,370	13,156

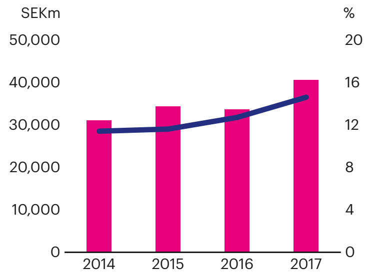
[1)] Excluding items affecting comparability.

Emerging markets accounted for



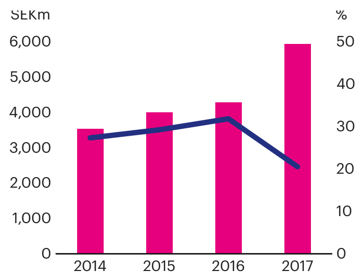
of the business area's net sales in 2017.
In emerging markets, organic sales increased by 2.0% for 2017.

Net sales and adjusted EBITA margin[1)]



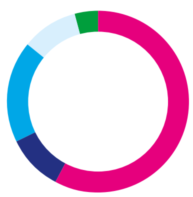
Net sales
Adjusted EBITA margin[1)]
[1)] Excluding items affecting comparability.

Adjusted EBITA[1)] and adjusted return on capital employed[1)]



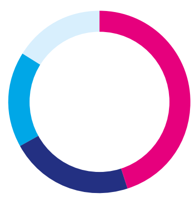
Adjusted EBITA[1)]
Adjusted return on capital employed[1)]
[1)] Excluding items affecting comparability.

Net sales by region



Europe, 58%
North America, 10%
Latin America, 18%
Asia, 10%
Other, 4%

Net sales by product segment



Incontinence Products, 45%
Baby Care, 22%
Feminine Care, 17%
Medical Solutions, 16%

For Personal Care, 10% of total sales were related to retailers' brands. For Incontinence Products: 1%, Baby Care: 39%, Feminine Care: 6%, Medical Solutions: 0%.

Incontinence Products

TENA Intimates products with ProSkin Technology "For your skin's natural protection"

Incontinence easily causes skin problems – the best way of avoiding this is to keep skin dry. TENA Intimates are designed with the users skin's protection in mind. We have combined our trusted TENA Triple Protection with new ProSkin Technology to offer a fast absorbing pad that keeps the feeling of being intimately fresh and clean. The Pro Skin Technology includes our new soft top layer and exclusive 3D technology to quickly wick fluid away – helping to maintain the skin's natural protection.

Offering and market position

Essity offers a broad range of incontinence products under the globally leading brand TENA. TENA is a "billion-dollar brand", meaning a brand with annual sales exceeding USD 1bn. Essity's offering of both products and services improves the quality of life for consumers and reduces costs for institutional customers, such as nursing homes. Essity's offering also includes an assortment of skincare products, wet wipes and wash gloves. Through TENA Solutions, Essity helps nursing homes provide the best care by offering procedures, analysis tools and training. The advantages include improved well-being for the care recipients, a better workplace environment for the caregivers, less resource consumption and lower overall costs. Essity is the global market leader in the market for incontinence products with 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. In North America and Asia (including Japan), Essity is the fourth largest player.

Strategy

Essity is prioritizing activities to strengthen TENA's global market-leading position by driving profitable growth and expanding at a faster rate than the market. Growth is expected to be achieved by increasing market shares and penetration and by broadening the customer offering by increasing sales in such segments as skincare products and wet wipes. Essity's strategy is to increase online sales of incontinence products to consumers. For the consumers, the benefits are easy-to-access information about incontinence and the opportunity to simply and discreetly order incontinence products from one of Essity's e-commerce partners or one of TENA's 21 webshops worldwide. Innovation activities are important and involve understanding customer and consumer needs in order to continuously enhance products and services and develop the offering to further increase customer satisfaction and brand loyalty.

By launching innovative products and solutions, the TENA brand and market positions are strengthened. During the year, Essity launched eight innovations, including TENA Lady Pants Discreet, TENA Lady Discreet and TENA Men Active Fit Pants.

In North America, the situation for Essity's TENA brand has been more challenging and the priority has been to improve profitability. Actions have been taken to reduce costs, discontinue unprofitable product ranges and focus on fewer but more profitable products, which led to enhanced profitability during 2017.

Since incontinence is still surrounded by social stigma in many regions of the world, it is important to raise understanding and acceptance of the condition to enhance the quality of life of people suffering from incontinence. We do this by:

- working actively to remove the stigma surrounding incontinence and continuing to invest to increase market penetration. A central part of this is providing information and arranging marketing activities, training and global forums. Focusing in the retail trade on information, advertising and the development of increasingly discreet, comfortable, easy-to-use and effective products, always with customer and consumer benefits in mind.
- arranging seminars and educational programs for nurses and professional caregivers within the scope of the health and medical care systems in various countries.
- working with decision-makers and governments in different countries to help establish sustainable reimbursement systems.

TENA Lady Discreet, incontinence products with microPROTEX Technology

For our consumers, a discreet and feminine product is important to promote enhanced well-being. With the TENA Lady Discreet's innovative design we increase the life quality for our consumers. The asymmetric body shape with narrower crotch for better fit and comfort and with a feminine print design enhances both the femininity and function. It is 20% thinner and still just as secure. It is also good for nature as the carbon footprint has been reduced by 15%.

Baby Care

Libero · Lotus Baby · Drypers · Pequeñin

Launch of Lotus Baby Touch diapers and wet wipes in France

France is one of Europe's biggest baby diaper markets with over 780,000 births per year and there has been a lack of competitive choices when it comes to diapers. Our brand, Lotus, is a strong consumer tissue brand with over 50 years of history in France. Combining the strength of the Lotus brand with Essity's baby care category know-how, our excellent go-to-market, as well as deep relations with France's leading retailers, we set the ground for a great launch of a new baby care brand in France. Our new brand, Lotus Baby Touch, pushes the boundaries and strives to be a modern brand for today's parent.

Offering and market position

Essity offers open baby diapers and pant diapers as well as baby care products such as wet wipes, shampoo, lotion and baby oil. Essity is the world's fifth largest player in the area and the second largest in Europe. In Europe, Essity markets baby diapers under its own Libero and Lotus brands and as retailers' brands. 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.

Strategy

Essity works to strengthen its branded positions in both mature and emerging markets and to improve profitability in Baby Care. The strategy is to hold the number one or two position in the selected markets in which we are present. For Baby Care, it is important to have a premium or super-premium offering in order to be competitive. Through continuous innovation activities, we develop our customer offering for both our branded and retailer branded product ranges.

In 2017, Essity launched in France under the Lotus brand a new premium range, Lotus Baby Touch, that includes baby diapers and wet wipes. The launch of innovative products strengthen Baby Care's brands and market positions. During the year, we launched five innovations, including a new generation of Libero Up&Go. During 2017, we discontinued the hygiene business in India, which largely related to Baby Care. The reason for the closure was the assessment that profitability could not be achieved within a reasonable time frame.

Libero KLUBBEN

In the new Libero club, parents can invite family and friends to follow their children's development and exciting life events. Highlights of the year are gathered in a personal photobook that can be ordered via Libero's loyalty program at the website www.libero.se/nya-liberoklubben.

Feminine Care

New Saba Cuidado-V Intimate Care Range

Essity is the market leader in Latin America and the launch of the new Saba Cuidado is another way to further strengthen our consumer offering. The new Saba Cuidado-V Intimate Care range is a line of products specifically designed to care for women's most delicate intimate area, every day of the month. This launch is the first step into expanding our feminine care brand to daily intimate care in line with our brand vision to become "the leading brand in period care and daily intimate care" and to position our brand as the expert in v-zone intimate care.

Offering and market position

In Feminine Care, Essity offers a broad product portfolio that includes pads, panty liners, tampons, intimate soaps and intimate wipes. Essity is the world's sixth largest player in the product segment, the third largest in Europe and the market leader in Latin America. A large and growing share of sales is taking place in emerging markets such as Latin America, Russia, Eastern Europe, the Middle East and Asia. Examples of regional brands supported by Essity's global brand platform include Libresse in the Nordic region, Russia and Malaysia, Bodyform in the UK, Nana in France, the Middle East and North Africa, and Saba and Nosotras in Latin America.

Strategy

Essity's strategy is to be the fastest growing brand in the feminine care product segment globally and to increase sales while maintaining good profitability. We use innovation to improve customer offerings and broaden the product category with such items as intimate wipes and intimate soaps to increase market share and brand loyalty. The launch of innovative products strengthen Feminine Care's brands and market positions.

During the year, we launched three innovations, including Discreet tampons under the Nana and Libresse brands and Saba Buenas Noches. Essity's feminine care brand platform and global advertising campaigns enable Essity to reach more consumers in various geographic markets with the same product improvements. Essity endeavors to remove the taboos surrounding menstruation and promote awareness of hygiene and menstruation. Educational programs are arranged in Latin America, Asia and Europe that aim to educate girls about what happens to their bodies during puberty and when they have their period.

Medical Solutions

JOBST Leukoplast® Cutimed® Delta-Cast®

Offering and market position
Medical Solutions is a new product segment that consists of BSN medical's operations acquired in 2017. Essity's Medical Solutions product segment offers products and solutions in wound care, compression therapy and orthopedics. In medical solutions, in the market in which the company is active, Essity is the world's fourth largest player. Essity's acute wound care offering includes a broad range of products, for example, surgical tapes, retention bandages, surgical/post-operation dressings and adhesive bandages and plasters. Essity holds the number two position globally within acute wound care. For advanced wound care, Essity offer products for the treatment of severe and complex wounds for wound bed preparation, infection control and to promote healing.

Within compression therapy, Essity offers a broad range of phlebology products[1)], including compression stockings, medical compression garments, and lymphology products[2)], such as compression bandages and wraps. Essity is the number one global provider of compression therapy products. In orthopedics, Essity offers multiple products in fracture and injury management, including cast tapes, splinting material, casting accessories, physiotherapy and orthopedic soft goods and braces. Essity is a global leader in fracture management and physiotherapy.

1) Phlebology refers to the branch of medicine studying veins.
2) Lymphology refers to the branch of medicine studying lymphatic vessels.

Strategy
Medical Solutions holds leading market positions in several medical solutions product categories and provides a new growth platform with future consolidation opportunities. Essity's incontinence business, with the globally leading TENA brand, shares similar positive market characteristics, customers and sales channels with Medical Solutions, which provides opportunities for accelerated growth through cross-selling.

During the year, 11 innovations were launched, including Siltec Redesign under the Cutimed brand, Lymphcare – a virtual tool to connect and engage therapists and patients – and antimicrobial spools under the Leuko brand.

Cutimed® Siltec

Cutimed® Siltec® dressings are an assortment of silicone-coated foam dressings. The dressings are indicated for exuding wounds, such as venous leg and arterial ulcers, pressure ulcers, diabetic gangrenes, surgical incisions, skin grafts and donor sites, lacerations or abrasions.

Antimicrobial spools for surgical tapes – Leukoplast® Leuokosilk® Leukopor® Leukoflex® Leukoderm®

The world's first spools and snap rings with antimicrobial properties that reduce the risk of cross-contamination in health care settings. More than 99.9% MRSA reduction within six hours.

MRSA = Methicillin-resistant Staphylococcus aureus. MRSA is a type of bacteria that is resistant to several widely used antibiotics. This means infections with MRSA can be harder to treat than other bacterial infections. (Source: NHS UK).

Consumer Tissue

Essity is the world's second largest supplier of consumer tissue. Our 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, and as retailers' brands. Vinda, which is the leading brand in China, is a "billion-dollar brand", meaning a brand with annual sales exceeding USD 1bn. Distribution channels for the products are the retail trade and online sales.

Consumer Tissue generated approximately SEK 42bn in net sales in 2017, which accounted for 39% of Essity's net sales for 2017. At the end of 2017, Consumer Tissue had production at 46 sites in 19 countries. 32 of the 46 sites also had production for Professional Hygiene.

Examples of brands

Operations in 2017

Net sales

SEK 42,014m

Organic sales

+0.5%

Adjusted EBITA[1)]

SEK 4,084m

Adjusted EBITA margin[1)]

9.7%

Adjusted return on capital employed[1)]

9.8%

Net sales increased 1.0% to SEK 42,014m (41,560). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 0.5%, of which volume accounted for 0.7% and price/mix for −0.2%. Organic sales decreased 3.4% in mature markets. The decline was mainly related to lower prices and volumes of products sold as retailers' brand. In emerging markets, which accounted for 44% of net sales, organic sales increased by 6.2%. The increase was related to Asia, Latin America and Russia. Exchange rate effects increased net sales by 0.5%.

Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1)] declined 8% (9% excluding currency translation effects) to SEK 4,084m (4,450). This decrease was mainly related to higher raw material costs that had a negative impact of SEK 1,000m on earnings. Lower prices also had a negative impact on earnings. Higher volumes and cost savings positively impacted earnings.

Adjusted EBITA margin[1)] was 9.7% (10.7).

Adjusted return on capital employed[1)] was 9.8% (10.9%).

Operating cash surplus amounted to SEK 6,163m (6,455).

Operating cash flow amounted to SEK 3,850m (5,199).

Capital expenditures amounted to SEK 2,889m (2,646).

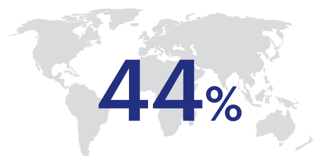
[1)] Excluding items affecting comparability.

Key figures

SEKm	2017	2016
Net sales	42,014	41,560
Operating cash surplus	6,163	6,455
Change in working capital	–425	891
Current capital expenditures, net	–1,749	–1,892
Other operating cash flow	–139	–255
Operating cash flow	3,850	5,199
Adjusted EBITA[1)]	4,084	4,450
Adjusted EBITA margin[1)], %	9.7	10.7
Capital employed	43,569	40,082
Adjusted return on capital employed[1)], %	9.8	10.9
Strategic capital expenditures		
plant and equipment	–1,140	–754
company acquisitions/divestments	25	0
Average number of employees	21,397	20,880
No. of employees at Dec. 31	21,563	21,371

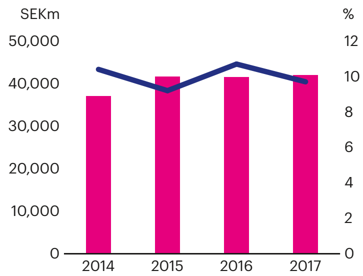
[1)] Excluding items affecting comparability.

Emerging markets accounted for



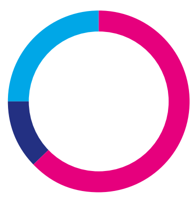
of the business area's net sales in 2017.
In emerging markets, organic sales increased by 6.2% for 2017.

Net sales and adjusted EBITA margin[1)]



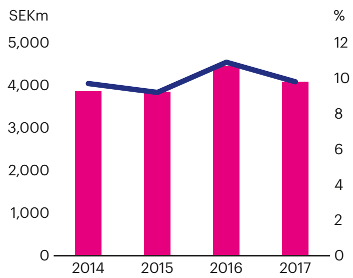
[1)] Excluding items affecting comparability.

Net sales by region



For Consumer Tissue, 34% of total sales were related to retailers' brands.

Adjusted EBITA[1)] and adjusted return on capital employed[1)]



[1)] Excluding items affecting comparability.

Our business

Zewa®/Lotus®/Tempo®/Colhogar®/Edet® Moist toilet paper

Moist toilet paper is a new kind of product offering additional benefits to dry toilet paper in terms of softness, freshness and cleanliness. Essity's moist toilet paper is made from 100% natural fibers and cleans better than dry toilet paper alone. The moist toilet paper is skin-friendly and pH-neutral and is flushable and biodegradable like toilet paper.

Offering and market position

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, and as retailers' brands. Essity is the world's second largest supplier of consumer tissue. In Europe, Essity is the market leader and holds a market share that is approximately twice the size of the second largest player. Essity also holds strong positions in several emerging markets, such as Russia and Colombia, where the company is the market leader, and in Mexico, where it holds the number two position. Essity is number one in China through its majority shareholding in Vinda.

Products sold under Essity's own brands account for approximately 66% of sales. The remaining approximately 34% are sold as retailers' brands. Essity's brand portfolio comprises many strong brands. Lotus, Tempo and Zewa are the leading brands in, for example, France, Germany and Russia, while Cushelle, Velvet and Plenty are strong brands in the UK and Ireland, and Edet in the Nordic region and the Netherlands. Tempo is the market leader in handkerchiefs in Hong Kong and Morocco. In Latin America, Essity holds leading positions in Mexico with the Regio brand and in Colombia with the Familia brand. Vinda is the leading brand in China.

Strategy

In the markets where Essity is present, the strategy is to be the leading supplier of strong brands by maintaining a high pace of innovation and successful brand marketing. We are also focused on expanding our product categories to further strengthen the customer offering. The launch of innovative products strengthens Essity's brands and market positions. During the year, we launched seven innovations, including a moist toilet paper under the Lotus and Tempo brands, among others. A new Tempo handkerchief was also launched.

For Consumer Tissue, Essity has assigned priority to increasing profitability by reducing costs and optimizing sourcing, production and distribution efficiency. In Europe, the aim is to further strengthen Essity's leading market position and its own Consumer Tissue brands and to grow the branded share of total sales. In parallel, we aim to be the best supplier of retailers' brands.

To improve efficiency and further increase value creation in the Consumer Tissue and Professional Hygiene business areas, Tissue Roadmap was launched in 2016. This is a plan to optimize the supply chain, increase cost and capital efficiency and secure capacity for potential future growth. In addition, the aim is to enable faster production adaptation in conjunction with innovations and product upgrades. Tissue Roadmap balances structural and organic efficiency opportunities in the supply chain with capacity expansion in selected markets.

Tempo washing machine resistant handkerchiefs

Tempo has always been known for its perfect balance of softness and strength. Our latest upgrade to the Tempo range has resulted in a handkerchief that is so soft yet still strong enough to survive a cycle in the washing machine, meaning that you avoid having your clothes covered in fluff and lint because of a forgotten handkerchief in a pocket.

Professional Hygiene

Essity is the leading global player in professional hygiene with the global Tork brand. Tork is a "billion-dollar brand", meaning a brand with annual sales exceeding USD 1bn.

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, Internet of Things sensor technology as well as service and maintenance. Professional hygiene customers consist of companies and office buildings, universities, healthcare facilities, industries, restaurants, hotels, stadiums and other public venues. Distribution channels for the products consist of distributors and online sales.

Professional Hygiene generated approximately SEK 27bn in net sales in 2017, which accounted for 24% of Essity's net sales for 2017. At the end of 2017, Professional Hygiene had production at 43 sites in 18 countries. 32 of the 43 sites also had production for Consumer Tissue.

Our brand

TORK

Operations in 2017

Net sales

SEK 26,700m

Organic sales

+1.5%

Adjusted EBITA[1)]

SEK 4,004m

Adjusted EBITA margin[1)]

15.0%

Adjusted return on capital employed[1)]

19.7%

Net sales increased 2.6% to SEK 26,700m (26,001). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.5%, of which volume accounted for –0.7% and price/mix for 2.2%. Price/mix was positively impacted by higher prices in North America and a better mix in Europe and North America. The acquisition of Wausau Paper Corp. increased net sales by 0.6%. Organic sales decreased 0.5% in mature markets due to lower volumes. These lower volumes are mainly the result of the decision to discontinue contracts with unsatisfactory profitability. In emerging markets, which accounted for 18% of net sales, organic sales increased by 12.4%. The increase was mainly related to Asia, Latin America and Eastern Europe. Exchange rate effects increased net sales by 0.5%.

Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1)] rose 4% (3% excluding currency translation effects and acquisition) to SEK 4,004m (3,836). Better price/mix, cost savings and the acquisition of Wausau Paper Corp. had a positive impact on earnings. Higher raw material costs mainly due to a significant increase in recovered paper prices and lower volumes had a negative impact on earnings.

Adjusted EBITA margin[1)] was 15.0% (14.8).

Adjusted return on capital employed[1)] was 19.7% (19.6%).

Operating cash surplus amounted to SEK 5,649m (5,515).

Operating cash flow amounted to SEK 4,411m (4,135).

Capital expenditures amounted to SEK 888m (1,455).

[1)] Excluding items affecting comparability

Key figures

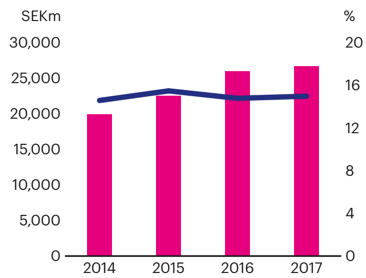
SEKm	2017	2016
Net sales	26,700	26,001
Operating cash surplus	5,649	5,515
Change in working capital	73	–30
Current capital expenditures, net	–719	–1,267
Other operating cash flow	–592	–83
Operating cash flow	4,411	4,135
Adjusted EBITA[1)]	4,004	3,836
Adjusted EBITA margin[1)], %	15.0	14.8
Capital employed	20,034	21,253
Adjusted return on capital employed[1)], %	19.7	19.6
Strategic capital expenditures		
plant and equipment	–169	–188
company acquisitions/ divestments	1	–6,395
Average number of employees	7,900	8,032
No. of employees at Dec. 31	7,767	7,993

[1)] Excluding items affecting comparability.

Emerging markets accounted for

of the business area's net sales in 2017.
In emerging markets, organic sales increased by 12.4% for 2017.

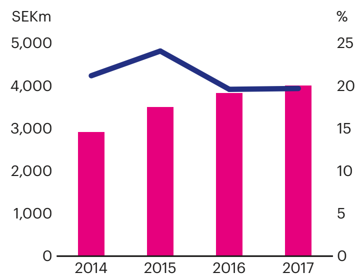
Net sales and adjusted EBITA margin[1)]



Net sales
Adjusted EBITA margin[1)]

[1)] Excluding items affecting comparability.

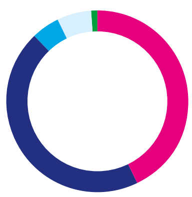
Adjusted EBITA[1)] and adjusted return on capital employed[1)]



Adjusted EBITA[1)]
Adjusted return on capital employed[1)]

[1)] Excluding items affecting comparability.

Net sales by region



Europe, 43%
North America, 45%
Latin America, 5%
Asia, 6%
Other, 1%

Our business

Offering and market position
Essity is the leading global player in professional hygiene with the global Tork brand. Tork is a "billion-dollar brand", meaning a brand with annual sales exceeding USD 1bn. 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, Internet of Things sensor technology as well as service and maintenance. Essity is the market leader in Europe and holds a market share that is approximately 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 foodservice segment, where Essity estimates that it supplies approximately every second napkin. Essity also has strong positions in emerging markets, such as Russia and Colombia, where the company is the market leader. The global Tork brand provides significant synergies since customer requirements in relation to professional hygiene are similar in various parts of the world.

Strategy
Essity is prioritizing activities to strengthen Tork's global market leading position through profitable growth and expansion to become the market leader in North America. Essity is focusing on increasing customer satisfaction and loyalty by helping our customers to be more efficient and environmentally friendly and by improving hygiene standards. The launch of innovative products and solutions strengthens the Tork brand and market positions. The Tork brand has revolutionized facility cleaning by bringing an Internet of Things solution to facility management in venues such as stadiums, amusement parks, hospitals, airports and offices around the world. Through its award-winning Tork EasyCube™ facility management software, Essity empowers cleaners and facility managers to track real-time data to ensure that soap and hand sanitizer, paper hand towels and toilet paper never run out, thereby lowering costs and improving user experiences. This enables customers to deliver higher cleaning quality more efficiently by having real-time information on what is needed, when and where. This new data-driven cleaning saves time and boosts the productivity and job satisfaction of cleaning staff. During the year, Essity launched eight innovations, including Tork PeakServe®, Tork ExcelCLEAN® and Tork PaperCircle™.

The integration of Wausau Paper Corp., acquired in 2016, proceeded according to plan during the year. During 2017, Wausau's four brands were successfully migrated to Tork.

To improve efficiency and further increase value creation in the Consumer Tissue and Professional Hygiene business areas, Tissue Roadmap was launched in 2016. This is a plan to optimize the supply chain, increase cost and capital efficiency and secure capacity for potential future growth. In addition, the aim is to enable faster production adaptation in conjunction with innovations and product upgrades. Tissue Roadmap balances structural and organic efficiency opportunities in the supply chain with capacity expansion in selected markets.

New, improved Tork cleaning cloth with ExelCLEAN®

Tork cleaning cloths consist of range of nonwoven multipurpose soft and flexible cleaning cloths that are suitable for cleaning and industrial uses. The cloths are strong and durable and represent a good alternative to rental shop towels and rags. The cleaning cloths can be stored in a wall-mounted or portable dispenser, ensuring that they are close at hand, can be economically dispensed and are protected from dirt. The packs of folded cloths have been compressed by up to 26%, reducing the need for storage space and enabling even more cleaning cloths to be loaded into the dispensers.

Tork PeakServe® Continuous® paper hand towel system

Tork PeakServe® is a completely new hand-wiping system specifically tailored for high-traffic areas. With the highest capacity in the market, it allows facility managers to serve 250% more guests between refills[1)]. This will result in fewer complaints of empty paper hand towel dispensers. The time cleaning staff save by less frequent refilling can be spent on other tasks to enhance the guest's washroom experience. The system is easy to load, generates less waste and gives a more hygienic and pleasant washroom. Furthermore, the towels are compressed by 50%, which results in smaller pack sizes and thus reduced storage space requirements.

1) Compared with a traditional paper hand towel dispenser.

Operations and structure

Essity divides and reports its operations according to three business areas – Personal Care, Consumer Tissue and Professional Hygiene. Personal Care includes the Incontinence Products, Baby Care, Medical Solutions and Feminine Care product segments. 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, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, Internet of Things sensor technology as well as service and maintenance.

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

Organization

Essity has the following four business units:

- Health and Medical Solutions, which offers incontinence products in Europe and North America and medical solutions in Asia, Europe and North America.
- Consumer Goods, which offers consumer tissue, baby care and feminine care in Europe, 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 and North America.

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

- Global Hygiene Category (GHC), with global responsibility for customer and consumer brands and innovation.
- Global Hygiene Supply Tissue (GHS-T), with global responsibility for sourcing, production, logistics and technology in Consumer Tissue and Professional Hygiene.
- Global Hygiene Supply Personal Care (GHS-PC), with global responsibility for sourcing, production, logistics and technology in Personal Care.

The organization has six Group functions: Finance, Human Resources, Sustainability, Legal Affairs, Communications, and Strategy and Business Development. Strategy and Business Development is also responsible for the Group's Global Business Services (GBS) and IT Services. GBS has global responsibility for providing professional and transactional services in finance, HR administrative support, organization of master data, and office-related support and service to all units within Essity.

In the subsidiary Vinda, a listed Asian hygiene company in which Essity is the majority shareholder, Essity exercises influence via its Board representation.

Events during the year

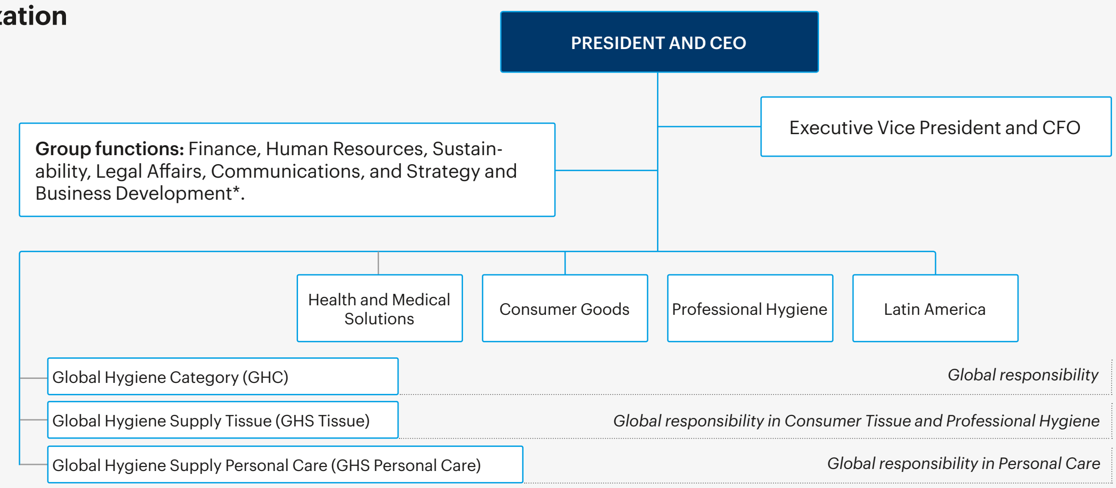
On April 3, 2017, the Group closed the acquisition of BSN medical, a leading medical solutions company. BSN medical develops, manufactures and sells products within wound care, compression therapy and orthopedics. The purchase price for the shares amounts to EUR 1,394m, and takeover of net debt to EUR 1,321m. Essity has consolidated BSN medical as of April 3, 2017.

On April 5, 2017, the Annual General Meeting of SCA resolved, in accordance with the Board of Directors' proposal, to distribute all shares in Essity Aktiebolag (publ) to SCA's shareholders. The Essity Aktiebolag (publ) share was listed on Nasdaq Stockholm on June 15, 2017.

During the first quarter of 2017, the hygiene business in India was discontinued because of the company's assessment that profitability could not be achieved within a reasonable time frame.

During the year, a decision was taken on restructuring measures in tissue production in the UK and US. Moreover, a decision was made to invest in tissue operations in Mexico and the UK, and Baby Care operations in Europe.

Organization



* The Strategy and Business Development Group function is also responsible for Global Business Services (GBS) and IT Services. GBS has global responsibility for providing professional and transactional services in finance, HR administrative support, organization of master data, and office-related support and service to all units within Essity.

Acquisitions, investments and divestments

Acquisition of BSN medical
On April 3, 2017, the Group closed the acquisition of BSN medical, a leading medical solutions company. BSN medical develops, manufactures and sells products within 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. Essity has consolidated BSN medical as of April 3, 2017.

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

BSN medical is included in the Personal Care business area.

The BSN medical acquisition is an excellent strategic fit for Essity, and supports the company's vision: Dedicated to improving well-being through leading hygiene and health solutions, two closely interlinked areas. Essity's incontinence business, with the globally leading TENA brand, shares similar positive market characteristics, customers and sales channels with BSN medical, which provide opportunities for accelerated growth through cross-selling.

BSN medical, with well-known brands such as Leukoplast, Cutimed, JOBST, Delta-Cast and Actimove, has leading market positions in several attractive medical solutions product categories and provides a new growth platform with future industry consolidation opportunities. The acquisition is expected to generate annual synergies of at least EUR 30m with full effect three years after closing. The company has high cash conversion and an asset-light business model.

Capital expenditures
To further strengthen competitiveness and enable future growth in the tissue operations in Mexico, Essity has decided to invest about USD 105m (approximately SEK 950m) in one of the company's facilities in the country. The investment in Mexico will support Essity's high-quality tissue offering under the Regio brand. The investment is aligned with the company's strategy to streamline production and secure capacity for future growth.

To meet the growing demand for high-quality tissue and strengthen the product offering in the UK, Essity is investing in a through-air drying (TAD) machine at its tissue plant in Skelmersdale.

Furthermore, to strengthen its baby care product offering in Europe, Essity has also decided to invest about EUR 40m (approximately SEK 380m) in facilities in Europe.

Divestments
During 2017, Essity divested the tissue facility in Chesterfield to Sidcot Group Limited for a purchase consideration of about GBP 3m (approximately SEK 35m).

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 subsidiaries and performing Group-wide management and administrative functions. The company's corporate registration number is 556325-5511, and the address is: Box 200, SE-101 23 Stockholm, Sweden. In 2017, the Parent Company recognized operating income of SEK 367m (–) and profit before appropriations and tax of SEK 1,681m (–244). The Parent Company was dormant for much of 2016. Capital expenditures totaled SEK 0m (7) 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 1,239m (1,211), corresponding to about 1.1% 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

Between the listing on June 15, 2017 and December 31, 2017, 453,501 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 a dividend of SEK 5.75 per share or SEK 4,038m. The record date for entitlement to receive dividends is proposed as April 16, 2018.

Environmental impact in Sweden

Essity Aktiebolag (publ) is conducting one operation in Sweden for which a permit is required relating to tissue manufacturing. This operation impacts the environment through emissions to air and water, solid waste and noise.

Sustainability report

Essity's statutory sustainability report, in accordance with the requirements of the Swedish Annual Accounts Act, is found on pages 66–83 and 149–156 in the Board of Directors' Report. 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 149.

Guidelines for remuneration of senior executives

The Board of Directors has decided to propose to the AGM 2018 the following guidelines for determining salaries and other remuneration for senior executives to apply for the period following the AGM.

"Remuneration of senior executives will be a fixed salary, variable remuneration, additional benefits and pension. Senior executives include the President, the Executive Vice President, Business Unit Presidents and equivalents, and the Central Staff Managers. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession and linked to the manager's responsibility and authority. Variable remuneration is to be limited and linked to the fixed remuneration, based on performance results in relation to annual and long term established targets. In the event of termination of employment, the notice period should normally be up to two years if termination is initiated by the company, and up to one year, when initiated by the senior executive. There will be no severance pay. Pension benefits should, wherever possible, only include defined premium pension benefits and entitle the executive to receive a pension from the age of 65. Variable remuneration is not pensionable income. The Board of Directors has the right to depart from the established guidelines if there is an individual case with special grounds. The guidelines do not take precedence over compulsory conditions in accordance with labor legislation or collective agreements. Furthermore, they are not applicable to existing contracts."

For information concerning the company's application of previously agreed guidelines and information on the company's calculated expenses for remuneration of senior executives, see Note C3 on pages 117–119.

Use of non-International Financial Reporting Standards (IFRS) performance measures

In July 2016, the European Securities and Market Authority (ESMA) issued guidelines for reporting alternative performance measures in company financial statements and prospectuses. Alternative performance measures related to performance measures not included within the framework of IFRS. These performance measures have been developed to help users of financial statements, investors and management to analyze the company's operations, and several of these are generally accepted financial key figures. These alternative performance measures can be found in the Board of Directors' Report, the financial statements and the notes. A description of the performance measures and how they are used is presented in Note A2, Use of non-International Financial Reporting Standards (IFRS) performance measures.

Sales and earnings

Net sales

Essity's net sales for 2017 increased 8.0% compared with the preceding year and amounted to SEK 109,265m (101,238). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.2%, of which volume accounted for 0.8% and price/mix for 0.4%. Organic sales decreased 1.0% in mature markets and increased 5.3% in emerging markets. Emerging markets accounted for 35% of net sales. Exchange rate effects increased net sales by 0.4%. The acquisitions of BSN medical and Wausau Paper Corp. increased net sales by 6.4%.

Earnings

Essity's adjusted operating profit before amortization of acquisition-related intangible assets (EBITA)[1] for 2017, rose 12% (1% excluding currency translation effects and acquisitions) to SEK 13,405m (11,992). Higher volumes, better price/mix, cost savings of SEK 1,231m, the acquisitions of BSN medical and Wausau Paper Corp., and the closures of the Baby Care business in Mexico and the hygiene business in India increased earnings. Higher raw material costs had a negative earnings effect of SEK 1,671m. The acquisition of BSN medical increased profit by 10%.

Items affecting comparability amounted to SEK –940m (–2,825) and include costs of approximately SEK –550m attributable to the split of SCA into two listed companies, which is mainly related to foreign tax of a non-recurring nature on non-current assets outside Sweden. Furthermore, the amount includes restructuring costs of about SEK –75m for the closure of a tissue machine in the UK, and approximately SEK –255m for the closure of a tissue production plant in the US. Items affecting comparability also include integration costs and transaction costs related to the acquisition of BSN medical and inventory valuation in connection with the acquisition balance totaling approximately SEK –435m. A release of a provision relating to a competition case in Poland had a positive impact of about SEK 265m. Other revenue impacted items affecting comparability positively by about SEK 110m.

Financial items increased to SEK –1,182m (–835). The increase is primarily due to higher average net debt. Lower interest had a positive impact on financial items during the period.

Adjusted profit before tax[1] rose 6% (declined 5% excluding currency translation effects and acquisitions) to SEK 11,663m (10,998).

The tax expense, excluding effects of items affecting comparability, was SEK 2,191m (4,355). The decrease is primarily related to the tax provision of approximately SEK 1.3bn made in the first six months of 2016. The tax reform in the US entailed a positive non-recurring tax effect of SEK 550m for the fourth quarter and the full year of 2017.

Adjusted profit for the period[1] rose 43% (32% excluding currency translation effects and acquisitions) to SEK 9,472m (6,643).

Profit for the period rose 107% (96% excluding currency translation effects and acquisitions) to SEK 8,785m (4,242). Earnings per share were SEK 11.56 (5.41[3]). Adjusted earnings per share[2] were SEK 13.09 (8.99[3]).

Key figures

The Group's adjusted gross margin[1] amounted to 29.6% (28.4) and the adjusted EBITA margin[1] was 12.3% (11.8). Adjusted return on capital employed[1] was 14.9% (16.4). Adjusted return on equity[1] was 21.3% (14.5). The interest coverage ratio was 10.1 (10.8).

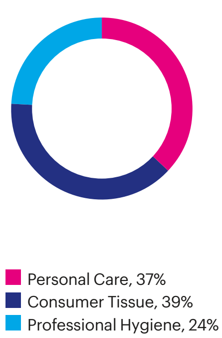
1) Excluding items affecting comparability.
2) Excluding items affecting comparability and amortization of acquisition-related intangible assets.
3) Indicative earnings per share on the assumption that the number of issued shares in Essity as of December 31, 2016 corresponded to the number of issued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

Summary income statement

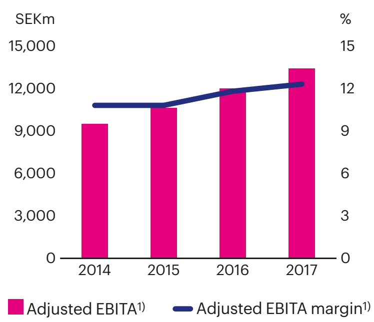
SEKm	2017	2016	2015
Net sales	**109,265**	**101,238**	**98,519**
Adjusted EBITA[1]	**13,405**	**11,992**	**10,603**
EBITA	**12,550**	**9,347**	**10,311**
Adjusted operating profit[1]	**12,845**	**11,833**	**10,470**
Items affecting comparability[2]	–940	–2,825	–786
Operating profit	**11,905**	**9,008**	**9,684**
Financial items[3]	–1,182	–835	–828
Profit before tax	**10,723**	**8,173**	**8,856**
Adjusted profit before tax[1]	**11,663**	**10,998**	**9,642**
Tax[4]	–1,938	–3,931	–2,278
Profit for the period	**8,785**	**4,242**	**6,578**

1) Excluding items affecting comparability.
2) Includes the sale of securities, SEK 970m for 2015.
3) Excludes the sale of securities, SEK 970m for 2015.
4) Including provision of approximately SEK +550m for 2017, approximately SEK –1,300m for 2016 and approximately SEK –300m for 2015.

Net sales, share of Group

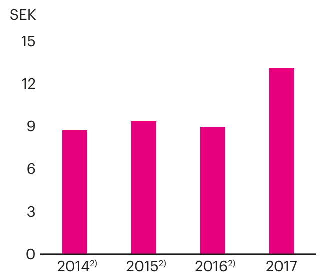


Adjusted EBITA[1] and adjusted EBITA margin[1]



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, 2015 and 2014 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).

Operating cash flow

The operating cash surplus rose 10% to SEK 18,465m (16,759). The cash flow effect of changes in working capital was SEK –740m (1,596). Working capital as a share of net sales increased to 5% (4). Current capital expenditures decreased SEK 311m during the year and amounted to SEK –3,911m (–4,222), corresponding to 4% (4) of net sales. Operating cash flow decreased to SEK 12,723m (13,031).

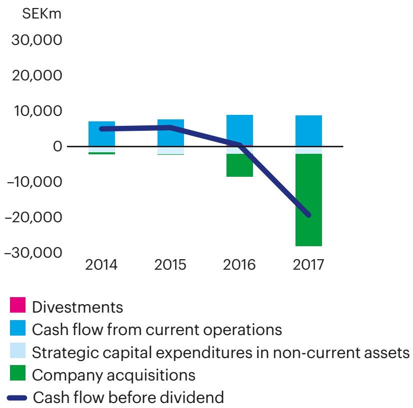
Financial items increased SEK 347m to SEK –1,182m (–835). The increase is primarily due to higher average net debt. Lower interest had a positive impact on financial items during the period. Income tax payments totaled SEK 2,971m (3,782). Cash flow from current operations amounted to SEK 8,745m (8,563).

Strategic capital expenditures amounted to SEK –2,101m (–2,033). The net sum of acquisitions and divestments was SEK –26,016m (–6,171). Net cash flow totaled SEK –18,791m (–13,967).

Net debt increased by SEK 17,294m during the year to SEK 52,467m at year-end. Excluding pension liabilities, net debt amounted to SEK 49,074m. Net cash flow increased net debt by SEK 18,791m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair measurement of financial instruments, reduced net debt by SEK 1,061m. Exchange rate movements reduced net debt by SEK 436m.

The debt/equity ratio was 1.06 (0.89). Excluding pension liabilities, the debt/equity ratio was 0.99 (0.76). The debt payment capacity was 26% (29).

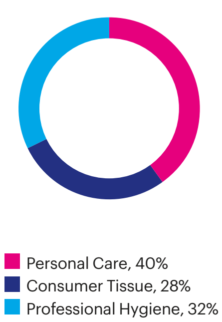
The Group’s cash flow



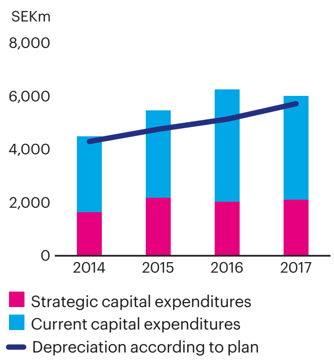
Summary operating cash flow statement

SEKm	2017	2016	2015
Operating cash surplus	18,465	16,759	15,051
Change in working capital	–740	1,596	–517
Current capital expenditures, net	–3,911	–4,222	–3,293
Restructuring costs, etc.	–1,091	–1,102	–801
Operating cash flow	**12,723**	**13,031**	**10,440**
Financial items	–1,182	–835	–828
Income taxes paid, etc.	–2,796	–3,633	–2,062
Cash flow from current operations	**8,745**	**8,563**	**7,550**
Company acquisitions	–26,045	–6,540	–92
Strategic capital expenditures in non-current assets	–2,101	–2,033	–2,179
Divestments	29	369	49
Cash flow before dividend	**–19,372**	**359**	**5,328**

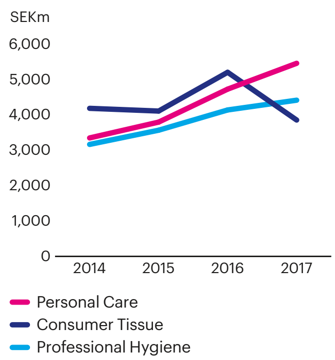
Operating cash flow, share of Group



Capital expenditures in non-current assets



Operating cash flow by business area



Financial position

Assets and capital employed

The Group's total assets increased 29% compared with the preceding year, amounting to SEK 147,016m (114,284). Non-current assets rose SEK 28,808m compared with the preceding year to SEK 107,098m, of which property, plant and equipment increased SEK 988m to SEK 48,482m and intangible assets increased SEK 26,203m to SEK 53,121m. Current and strategic capital expenditures in property, plant and equipment amounted to SEK 6,193m and depreciation for the year to SEK 4,871m.

Current assets rose SEK 3,924m to SEK 39,918m (35,994). Working capital amounted to SEK 5,901m (4,143). Capital employed was 36% higher and totaled SEK 102,037m (74,753). The distribution of capital employed per currency is shown in the table below.

The value denominated in SEK of the Group's foreign net assets amounted to SEK 65,389m at year-end. In 2016, the Group's foreign net assets totaled SEK 54,568m.

Equity

Consolidated equity increased by SEK 9,990m during the period to SEK 49,570m (39,580). Net profit for the period increased equity by SEK 8,785m. Equity increased SEK 843m net after tax 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, excluding acquired hedge reserves, reduced equity by SEK 2m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, decreased equity by SEK 1,218m. Equity increased as a result of a private placement of SEK 969m to non-controlling interests in Vinda. Transactions with former shareholders (SCA) in conjunction with the split increased equity by SEK 842m. Equity increased by SEK 78m related to the acquisition of non-controlling interests in conjunction with the acquisition of BSN medical. Other items reduced equity by SEK 307m.

Financing

The Group's interest-bearing gross debt amounted to SEK 54,838m (36,873) at year-end. The maturity period was 4.3 (4.0) years.

Net debt amounted to SEK 52,467m (35,173) at year-end. Net cash flow increased net debt by SEK 18,791m. Fair value measurement of pension assets and an update of the assumptions and assessments that influence the valuation of pension obligations, net, together with fair valuation of financial instruments, decreased net debt by SEK 1,061m. Exchange rate movements decreased net debt by SEK 436m.

Key figures

The debt/equity ratio was 1.06 (0.89). Excluding pension liabilities, the debt/equity ratio was 0.99 (0.76). The visible equity/assets ratio was 29% (29). Adjusted return on capital employed[1] and equity[1] was 14.9% (16.4) and 21.3% (14.5) respectively. The capital turnover rate was 1.21 (1.38). At year-end, working capital amounted to 5% (4) of net sales.

[1] Excluding items affecting comparability.

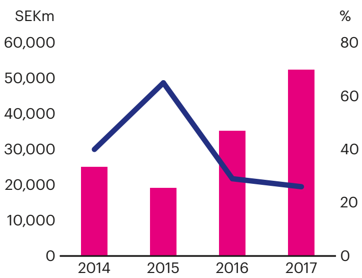
Consolidated capital employed by currency, SEKm

	2017	%	2016	%	2015	%
EUR	40,937	40	25,016	33	22,843	34
USD	18,020	18	14,419	19	7,124	11
CNY	15,550	15	13,402	18	14,140	21
MXN	4,621	5	4,309	6	4,591	7
GBP	5,119	5	4,306	6	4,332	6
Other	17,790	17	13,301	18	14,303	21
Total	**102,037**	**100**	**74,753**	**100**	**67,333**	**100**

Consolidated balance sheet

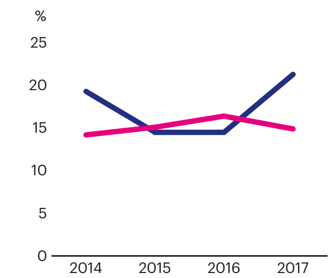
SEKm	2017	2016	2015
Intangible assets	53,121	26,918	22,763
Property, plant and equipment	48,482	47,494	42,402
Other non-current assets	5,495	3,878	3,084
Total non-current assets	**107,098**	**78,290**	**68,249**
Current assets	39,918	35,994	47,102
Total assets	**147,016**	**114,284**	**115,351**
Equity	49,570	39,580	48,275
Non-current liabilities	60,828	41,971	29,170
Current liabilities	36,618	32,733	37,906
Total equity and liabilities	**147,016**	**114,284**	**115,351**
Working capital	5,901	4,143	5,165
Capital employed	102,037	74,753	67,333
Net debt	52,467	35,173	19,058

Net debt and debt payment capacity



Net debt
Debt payment capacity, %

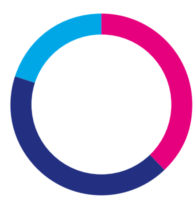
Adjusted return on capital employed and equity[1]



Adjusted return on capital employed[1]
Adjusted return on equity[1]

[1] Excluding items affecting comparability.

Capital employed, share of Group



Personal Care, 38%
Consumer Tissue, 42%
Professional Hygiene, 20%

Risks and risk management

Essity is exposed to a number of risks that could exert a greater or lesser material impact on the Group. These risks are generally defined as factors that impact Essity's ability to achieve established targets for the Group. This applies to both financial targets and targets in other areas. Essity's objectives are outlined on pages 18–21.

Many of the risks described could have a positive or negative impact on the Group. This implies that if a risk develops in a favorable manner or if risk management is successful in counteracting the risk, target fulfillment could exceed expectations. From this perspective, the risks could also entail opportunities for Essity. Examples include the GDP trend and the economic situation, the cost of input goods, customer and consumer patterns, and movements in market prices.

The description in this section relates to the structure that Essity had at year-end 2017.

Essity's structure and value chain

Essity's structure, value chain and operations entails in itself a certain degree of risk spread.

Essity conducts operations in hygiene and health, with sales through a variety of different channels and distribution paths, both in retail trade and business-to-business, as well as deliveries to entirely or partially different customer segments and end-users. The geographic structure includes both mature markets and emerging markets with sales in approximately 150 countries. Manufacturing is pursued at about 90 production facilities in some 30 countries. Sales are often based on local manufacturing. Essity's operations are partly influenced by the business cycle and general economic prosperity. The competitive situations also differ.

Processes for risk management

Essity's Board of Directors determines the Group's strategic direction based on recommendations from the Executive Management Team. The responsibility for long-term and overall management of strategic risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to the Business Unit Presidents. This implies that most operational risks are managed by Essity's business units at a local level, but are coordinated when deemed relevant. The tools for this work primarily comprise continuous reporting by the business units and the annual strategy process, which includes risk assessment and risk management as part of the process. Identified risks have been classified according to the likelihood of the risk becoming a reality and the impact it can have on Essity's target fulfillment. The standardized model also includes how risks shall be monitored and followed up. The outcome of this evaluation constitutes a part of the assessment of risks described in this section.

Essity's financial risk management is centralized, as is the case for the corporate internal bank for financial transactions of Group companies and management of the Group's energy risks. The financial risks are managed in accordance with the Group's finance policy, which is set by Essity's Board of Directors and, together with Essity's energy risk policy, comprises a framework for management activities. The risks are grouped and followed up on a regular basis to ensure compliance with these guidelines. Essity has also centralized the management of other risks.

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

Risks that impact Essity's ability to achieve established targets

Risk	Policy/Action
GDP trend and economic conditions	
Demand for Essity's products is driven by factors such as population growth, aging population, improvements in living standards and increased awareness of the importance of hygiene and health. Demand is to some extent related to GDP trends, where Professional Hygiene is the business most sensitive to economic movements. The institutional care and homecare segment for Incontinence Products is also relatively unaffected by the business cycle, although it can be impacted by the public budget situation in certain countries. Sales to the retail market, which accounts for the bulk of sales of hygiene products, are more dependent on established consumption patterns, innovation and distribution than the economic climate.	For all businesses, it is important that Essity manages the effects of the economic movements that occur by taking actions to reduce costs and by reviewing the capacity and production structure, and creating higher customer value through product innovations. Essity also works with solutions that can reduce a customer's total cost of use; for example in Professional Hygiene where sensors in public washrooms help to optimize work tasks in connection with emptying wastepaper baskets, refilling paper and soap, etc.

Risk	Policy/Action
Environmental impact and climate change	
Essity's operations have an impact on air, water and land. These effects could lead to costs for restoring the environment or other kinds of negative effects. The matter of the economic impact of climate change is also growing in significance.	Essity's sustainability policy stipulates guidelines for the Group's measures within environmental and social responsibility. The company's targets for people and nature are an integrated part of the business strategy. Risks are minimized 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 company combats climate change and reduces emissions of greenhouse gases by investing in renewable fuel and programs for energy savings. Essity is committed to developing a Science Based Targets that is based on the agreement reached at the COP21 climate meeting in Paris to take measures so the global temperature rise is kept below 2 degrees Celsius. Through its Resource Management System (RMS), Essity monitors how the company is utilizing energy, water, transportation, production waste and raw materials. The data is used for internal control and follow-up of established targets. Essity also works to reduce the volume of production waste and to contribute to a circular society.
Impact of political decisions and related measures	
Essity is affected by political decisions, new legislation and administrative regulations in the approximately 150 countries in which the Group conducts operations. These relate to general regulations, such as taxation and financial reporting. Essity is also impacted by more specific regulations, such as the granting of permits in accordance with the Environmental Code and reimbursement of expenses in the healthcare system. Even actions by third parties with the intention of influencing political decisions impact Essity, such as NGO activities. Essity's offering in medical solutions is often encompassed by regulations that are specific to these products. Regulatory requirements have become increasingly strict in recent years.	Essity's Public Affairs unit works to monitor and evaluate changes in its external environment, amended legislation and the active players in each field. Actions are identified and implemented that lead to improvements of the policy areas/regulations for the benefit of Essity's stakeholder groups. Essity is a member of national and international trade associations and other partnerships. The aim of this is to contribute to the current public debate and promote the improvement of relevant policy areas. A key area for Essity is energy and environmental legislation. Since legislation in Europe is often leading within the areas of environment and energy and because Essity has large operations in Europe, the company focuses many of its Public Affairs activities on the various EU institutions. Essity monitors developments in prioritized policy areas, such as the circular economy and resource consumption in general and, more specifically, issues relating to waste and emissions to water and air. Since the public sector is both a significant customer and stakeholder group for Essity, the health debate is important to the company, especially with regard to the development of systems for healthcare with greater patient benefit and greater cost efficiency. Essity also works actively to disseminate knowledge and solutions regarding various national systems to decision-makers in countries where new structures are being built up. Examples include the development of systems for cost-free or subsidized prescription of incontinence aids in countries where such benefits were not offered in the past. We are also monitoring developments in regulations covering medical solutions.
Impact of substitutes	
Other product solutions (substitutes) can replace products that are included in Essity's offering and thereby reduce sales. By offering competitive products, Essity can also capture market shares from the substitute. The issue of substitutes is also linked to changes in the patterns and attitudes of customers and consumers that affect demand for certain products and thus profitability.	Substitutes exist for virtually all Essity products. This may involve different products with a similar function, such as cloth diapers or cloth rags for household or industrial cleaning, or completely different solutions to meet the needs of customers and consumers, such as menstrual cups or electric hand dryers. Essity's focus on customer and consumer insight guides its innovation activities, ensuring that new products and solutions provide competitiveness and that the company's offering continuously evolves to meet customer and consumer needs. New technological solutions are developed through the company's own research and development activities and in cooperation with suppliers. Development work is thus often conducted in direct cooperation with customers and suppliers of material and machinery to provide a direct link to requirements and feedback from customers, at the same time as more efficient processes and products are developed. An increasingly important factor is greater focus on sustainability with respect to environmental, economic and social factors. The service life of products, use of renewable raw materials and the recycling of used products will be affected the most. Other demands imposed on Essity's innovation include the desire to create profitable differentiation for Essity's product range and create value and growth, both for customers and Essity (read more about innovation on pages 26–27). In many countries, the degree of penetration is low, meaning only a small proportion of the population uses hygiene and health products compared with more mature markets. To increase acceptance of its products, Essity focuses on matters influencing attitudes and on breaking taboos. This also applies in Europe and North America with regard to for example Incontinence Products.

Risk	Policy/Action

Dependence on major customers and distributors

The retail trade is Essity's single largest customer group and thus exercises considerable influence. Around 59% of Essity's net sales are made as retailer's brands, under both Essity's brands and retailer's own brands. Essity also uses distributors or retailers to reach certain markets. If these distributors or retailers are not successful in selling Essity's products, this could have a negative impact on Essity's earnings.

A general consolidation trend is taking place in several of Essity's sales channels, which could increase dependence on individual customers. In the retail trade, for example, the prevailing trend is towards increased concentration, which has mainly resulted in fewer retail companies at a national and regional level. A more consolidated customer situation may mean larger volumes are concentrated to an individual customer and thereby increase dependence or sensitivity in a transaction.

Essity's customer structure is relatively dispersed, with customers in many different areas of business. In 2017, Essity's ten largest customers accounted for about 23% of net sales. Most of these customers were retail companies. The ten largest customers also include some large distributors of professional hygiene. Essity works to successfully maintain strong and long-term customer relationships with strategic customer segments and build relationships with new customers. The strength of Essity's customer relationships also affect the ability to obtain competitive pricing and selling terms. The processes for customer dialogue and customer follow-ups, both in economic terms and also in terms of how well we deliver on our commitments, such as service level, product complaints and availability, are important parameters for ensuring customer satisfaction and thereby long-term customer relationships.

Credit risk in accounts receivable is dealt with in the section Credit risk, on page 71.

Movements in the market price of Essity's products

Movements in the market price of Essity's products could create major fluctuations in the profitability of the product segment unless these movements can be offset by adjusting costs for Essity.

To reduce the impact of price movements on Essity, actions are taken to adapt the cost scenario to lower market prices, for example, by renegotiating purchasing agreements, implementing personnel and capacity reductions, and reviewing the business structure. In other cases, the product's content can be adapted to the new market price level.

Risks at plants

Essity has around 90 production facilities in some 30 countries. Fires, machinery breakdowns and other types of harmful incidents could damage the plant in question and also cause delivery problems.

Essity's activities in this area are governed by its Risk Management Policy, which controls how Essity shall manage insurable operating risks. From this perspective, the aim of risk management is to effectively and cost efficiently protect the employees, the environment, the company's assets and the business, and to minimize Essity's risk management costs. This can be achieved by creating and retaining a balance between loss prevention and insurance coverage.

The loss-prevention work is conducted in accordance with established guidelines that include inspections by risk engineers and benchmarking with other plants, within and outside Essity. Other important elements of loss-prevention activities include maintenance of plants and machinery, staff training, and good orderliness. Every year, Essity invests in loss-prevention measures and its plants continuously work to reduce their risks. For example, new facilities are protected with sprinkler systems as standard. All wholly owned plants are insured to replacement cost and for the loss of income. Within the EU, insurance is primarily carried out by the Group's own companies, with external reinsurance for major damages. Outside the EU, Essity cooperates with market-leading insurance companies.

Occurrence of unethical business practices and human rights violations

Essity works in some 150 countries and in environments where unethical business practices and violations of human rights may occur. Risks associated with business ethics are considered one of the most serious risks for Essity. If Essity becomes involved in these business practices, the company's reputation in the market may be damaged and Essity may also suffer high fines and other legal sanctions.

To ensure that Essity's organization is not drawn into or tied to unethical business practices or human rights abuses, there has been a Code of Conduct established since 2004. The Code is reviewed on an annual basis to ensure that new laws and guidelines are taken into account. The Code contains principles that include business ethics, relationships to employees, respect for human rights and the environment and so forth. Training of all of Essity's employees regarding the Code of Conduct takes place continuously. Essity's regulatory compliance program is also assessed every year relating to anti-corruption. Training programs for managers, with a focus on various business ethics dilemmas, have been drawn up and implemented throughout the organization. To ensure that Essity's regulatory compliance program for risks associated with business ethics is efficient, it is continuously reported to a committee that includes members from Essity's management.

Risk	Policy/Action

Suppliers

Risk

Essity is dependent on a large number of suppliers. The loss of key suppliers could result in costs for Essity and problems in manufacturing. Suppliers could also cause problems for Essity through non-compliance with applicable legislation and regulations or by otherwise acting in an unethical manner.

Policy/Action

To reduce this risk, Essity has supply contracts with a large number of suppliers and continuously enters into agreements with various durations. The Group has several suppliers for essentially all important input goods. These contracts ensure deliveries of a significant proportion of input goods. The Group also has more intensive cooperation with selected suppliers that covers the development of materials and processes.

Essity continuously assesses suppliers to ensure that they meet Essity's standards in all respects in accordance with a risk-based methodology that places a special emphasis on suppliers in high-risk countries and high-risk industries, such as fiber and cotton. The assessment may take the form of a questionnaire, an on-site visit or the use of independent auditors. For essentially all important input goods, Essity assesses the following factors at current and potential suppliers:

- Quality
- Product safety
- Impact on the environment, including the issue of the origin of the input goods
- Use of chemicals
- Regulations for medical solutions
- Compliance with Essity's Code of Conduct

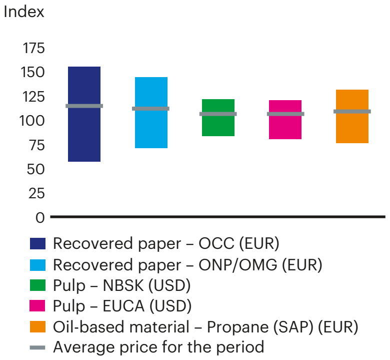
See page 83 for more information.

Cost of input goods

Risk

The market price of many of the input goods used in the manufacture of Essity's products fluctuates over time and this could influence Essity's earnings.

Highest/lowest market prices (annual average) 2007–2017 per product



Policy/Action

Fiber raw material constitutes a major cost item for Essity, primarily in Consumer Tissue and Professional Hygiene. Fluctuations in the price of Fiber raw material are mainly managed through long-term relationships with suppliers and by optimizing global purchasing and the fiber mix. Oil-based materials constitute a major cost item, primarily in Personal Care and as packaging material. Other oil-price related expenses comprise, for example, transportation. When possible, these and other costs are managed principally through compensation in the form of raised prices for Essity's products, by adjusting product specifications or through streamlining of the Group's own operation. The impact of price movements on input goods can be delayed through purchasing agreements.

Essity's relative costs for various key input goods are described on page 168. The price trend for a number of input goods over the past ten years is presented in the diagram to the left.

Employee-related risks

Risk

Essity must have access to skilled and motivated employees and safeguard the availability of competent managers.

Policy/Action

Essity works in a structured manner to ensure the health and well-being of its employees through proactive preventative healthcare activities, such as education, exercise, special initiatives, for example, to help employees quit smoking and by offering health checks in several countries. Essity also places great importance on safety activities.

Essity's strategic manpower planning secures access to people with the right expertise at the right time. Recruitment can take place both externally and internally, and internal recruitment and job rotation are facilitated by a job portal, where available positions are advertised both internally and externally. Salaries and other conditions are to be adapted to the market and linked to Essity's business priorities. An established succession planning program protects the operations. Essity strives to maintain good relationships with union organizations.

Legal risks

Risk

New legislation in various countries could negatively impact Essity. Legal processes can be protracted and costly.

Policy/Action

Essity monitors the development of legislation through its corporate legal staff and external advisors. In the countries in which Essity conducts operations, local legal issues and disputes are handled through local legal advisors.

Information and IT risks

Risk

Essity relies on IT systems in its day-to-day operations. Disruptions or faults in critical systems have a direct impact on production and important business processes. Errors in the handling of financial systems can affect the company's reporting of results. These risks grow in an increasingly technically complex and interlinked world.

Policy/Action

Essity has established a management model for IT that includes governance, standardized IT processes and an organization for information security. The IT security work includes continuous risk assessment, preventive measures and use of security technologies. Standardized processes are in place for the implementation and change of systems and IT services and for daily operations. The majority of Essity's system landscape is based on well-proven products, such as SAP.

Risk	Policy/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 price movements of electricity and natural gas, but the price of other energy commodities also directly and indirectly impacts Essity's operating profit.

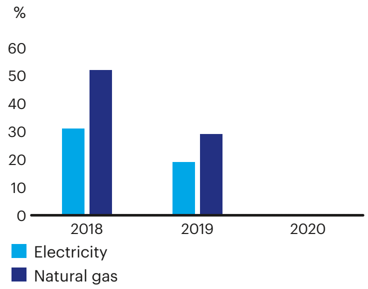
Essity centrally manages the energy price risk related to electricity and natural gas. According to Essity's policy, these price risks can be hedged for a period of up to 36 months. Energy price hedging is effected through financial instruments and fixed pricing in existing supply agreements.

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

In 2017, Essity purchased about 5 TWh (5; 5) of electricity and about 8 TWh (8; 8) of natural gas.

The graph displays 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 agreements. For further information concerning financial price hedges, see Note E6 Derivatives and hedge accounting on page 129.

Energy price hedges in relation to forecast consumption, December 31, 2017



Currency risk

Transaction exposure
Transaction exposure is the risk that exchange rate movements in export revenues and import expenses 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 subsidiaries' 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. The high costs in USD is due to pulp purchases that are invoiced in USD.

Currency	Sales %	Costs %	Adjusted EBITA[1] SEKm	Closing rate, December 31, 2017	Average rate 2017
EUR	39	34	9,534	9.8396	9.6324
USD	17	32	–12,452	8.2230	8.5280
CNY	10	5	6,428	1.2631	1.2624
GBP	7	4	4,205	11.1002	10.9854
MXN	4	3	1,250	0.4174	0.4522
RUB	3	2	955	0.1430	0.1463
COP	3	3	486	0.0028	0.0029
SEK	2	5	–2,235		
Other	15	12	5,234		
TOTAL	**100**	**100**	**13,405**		

[1] Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability.

Transaction exposure
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 forecast net flow of currency against SEK amounts to SEK –1,059m (–892; –1,586). At year-end, a net flow against SEK corresponding to three months of the forecast flow for 2018 was hedged. The majority of hedges mature during the first quarter of 2018. The forecast and hedges of the 2018 flows are shown in the table to the right. For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting on page 129.

Forecast and hedges relating to flows in 2018

Currency	Net flows SEKm	Currency inflows SEKm	Currency outflows SEKm	Hedged inflows %	Hedged outflows %
CNY	6,478	6,491	–13	0	0
GBP	3,429	4,161	–732	5	1
CAD	1,252	1,743	–491	0	0
PLN	916	2,282	–1,366	12	6
RUB	889	945	–56	0	0
NOK	846	855	–9	1	0
CHF	757	828	–71	0	0
DKK	650	709	–59	0	0
MXN	608	1,504	–896	6	0
SEK	–1,059	6,095	–7,154	2	6
EUR	–1,272	12,585	–13,857	7	2
USD	–15,858	3,809	–19,667	0	5
Other	2,364	3,897	–1,533	8	1

Translation exposure
Essity manages translation exposure by distributing the liability across various currencies where the Group owns assets so that key figures that are material for the company's credit rating are protected in the long term against exchange rate effects. Translation exposure in the income statements of foreign subsidiaries is not currency-hedged. As at December 31, 2017, net debt amounted to SEK 52,467m (35,173; 19,058). 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 129.

Net debt distributed by currency

Currency	Net debt SEKm	Percentage of net debt 2017 %	2016 %	2015 %
EUR	–23,978	46	13	34
SEK	–9,962	19	45	11
USD	–7,726	15	15	11
CNY	–4,335	8	11	25
GBP	–3,071	6	3	3
MXN	–1,424	3	3	7
HKD	–1,096	2	4	1
Other	–875	1	6	8
	–52,467	**100**	**100**	**100**

Risk	Policy/Action

Credit risk

Risk

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

Policy/Action

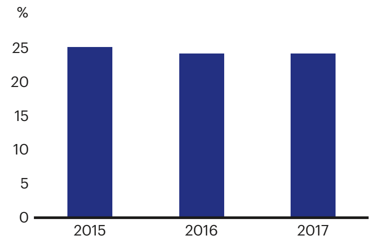
Credit risk in accounts receivable
Credit risk in accounts receivable is managed through credit checks of customers using credit rating companies. The credit limit is set and regularly monitored. Accounts receivable are recognized at the amount that is expected to be paid based on an individual assessment of each customer.

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

Essity strives to enter into agreements that allow net calculation of receivables and liabilities. Credit exposure in derivative instruments is calculated as the market value of the instrument. At year-end, the total credit exposure was SEK 4,964m (5,214; 6,591). This exposure includes credit risk of SEK 4,106m (4,244; 4,828) for financial investments.

Credit exposure in derivative instruments amounted to SEK 858m (971; 753) at December 31, 2017.

Ten largest customers' share of outstanding accounts receivable



Liquidity and refinancing risk

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.

Policy/Action

To ensure good access to loan financing, regardless of the economy and at 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 good distribution in the maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, considering unutilized credit facilities that are not liquidity reserves. 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 key figures 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 increased SEK 17,294m in 2017.

At year-end, the average maturity of gross debt was 4.3 years (4.0; 3.5). If short-term loans were replaced with drawings under long-term unutilized credit facilities, the maturity would amount to 4.5 years. Unutilized credit facilities amounted to SEK 19,680m at year-end. In addition, cash and cash equivalents totaled SEK 4,107m. For further information, see Note E2 Financial assets on page 127, cash and cash equivalents, and Note E4 Financial liabilities on page 128.

Liquidity reserve

SEKm	2017	2016	2015
Unutilized credit facilities	19,680	19,164	18,583
Cash and cash equivalents	4,107	4,244	4,828
Total	**23,787**	**23,408**	**23,411**

SEKm	2017	2016	2015
Net sales	109,265	101,238	98,519
Liquidity reserve[1]	22%	23%	24%

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

Interest rate risks

Risk

Interest rate risk relates to the risk that movements in the interest rates could have a negative impact on Essity. Essity is affected by interest rate movements through its net financial income and expense.

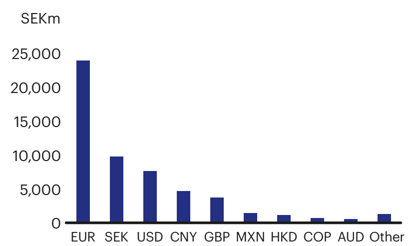
Policy/Action

Essity seeks to achieve a good distribution of its interest maturity dates to avoid large volumes of renewals occurring at the same time. Essity's policy is to raise loans with floating rates, since it is Essity's understanding that this leads to lower interest expense over time. The interest rate risk and interest period are measured by currency and the average interest term shall be within the interval 3 to 36 months.

Essity's net financial items increased in 2017, primarily a result of higher average net debt. Lower interest rates had a positive impact on financial items during the period. Essity's largest funding currencies are EUR, SEK and USD, refer to the graph. To achieve the desired fixed interest period and currency balance, Essity uses financial derivatives. The average interest period for the gross debt, including derivatives, was 30.1 months (8.5; 9.2) at year-end.

The average interest rate for the total outstanding net debt including derivatives, amounted to 1.83% (2.26; 3.11) at year-end.

Gross debt distributed by currency



Essity’s business model

Approximately 48,000 employees around the world.

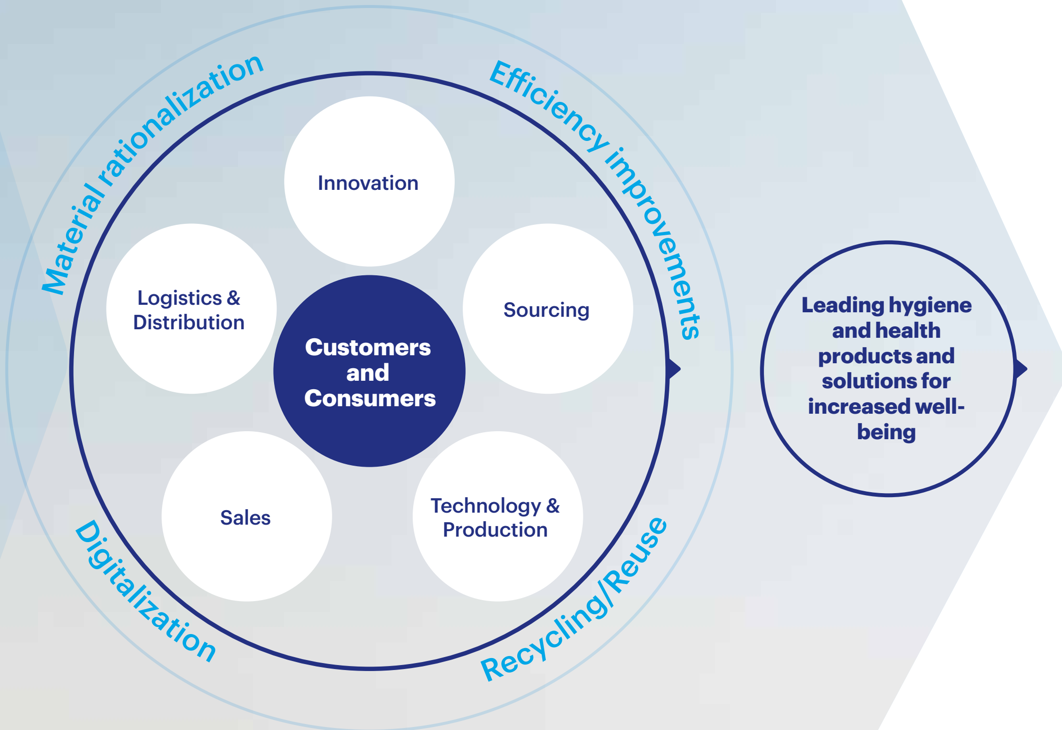
Approximately 90 production facilities.

In 2017, Essity purchased raw materials and consumables for approximately SEK 38bn. Essity’s main raw materials are pulp, recovered fiber and oil-based raw materials. Energy costs totaled approximately SEK 4bn.

Essity had a solid investment grade rating.

Equity at the end of 2017 totaled approximately SEK 50bn.

Net debt amounted to approximately SEK 52bn.



Essity’s vision is: Dedicated to improving well-being through leading hygiene and health solutions. Our mission is to sustainably develop, produce, market and sell value-added products and services within hygiene and health.

Our business model and value chain start with innovation and product deve- lopment. Innovation efforts are based on Essity’s objective to enable more people every day to enjoy a fuller life. Essity’s strength is to transform insight about the needs of customers and consumers into leading products and solutions, whereby sustainability, product quality and product safety are of great importance. For example, raw materials sour-cing is conducted centrally in the company, which generates economies of scale and improves the negotiating position. Essity works throughout the supply chain to guarantee responsible raw material sourcing and subjects its raw material suppliers

to stringent demands. We manufacture products and offer solutions in Personal Care, Consumer Tissue and Professional Hygiene. Within technology and production, continuous work is ongoing to digitalize, automate and improve efficiency to achieve sustainable, efficient, world-class production.

Essity has sales in approximately 150 countries and our products are distributed in a number of ways, from small convenience stores in rural areas to supermarkets, hospitals and healthcare centers, restaurants, pharmacies and e-commerce. In 2017 the retail trade accounted for 59% of Essity’s net sales, business-to-business for 24% and the healthcare sector for 17%. To contribute to a sustainable and circular society, there is a need for new business solutions and innovations that close the loop, which are key features of the initial innovation work.

Value added in 2017

SEK 5.75	41	More than 2.5 million	–1.3%	–6%
proposed dividend per share	innovations	educated in hygiene and health	CO_2 emissions	accident frequency rate

Shareholders

One of Essity's objectives is to generate long-term value for the company's shareholders and that the Essity share will deliver a higher total shareholder return than competitors. Value for our shareholders is achieved through a positive share price development and dividends. We aim to provide long-term stable and rising dividends to our shareholders.

- The Essity share was listed on Nasdaq Stockholm in Sweden on June 15, 2017. In the period June 15–December 31, 2017, the share price fell 6%.
- The Board of Directors proposes a dividend of SEK 5.75 per share for the 2017 fiscal year.

Customers and consumers

Essity aims to enable more people every day to enjoy a fuller life. We believe that knowledge is the key to increased hygiene and health standards in the world, at the same time as this creates business opportunities for Essity.

- In 2017, Essity educated more than 2.5 million children, women, men, parents, relatives and caregivers throughout the world in hygiene and health.
- 41 innovations that improved our customer and consumer offerings were launched during the year.

Employees

Essity's success depends upon having motivated, competent and result-oriented employees who show great dedication to developing themselves and the company. Our ambition is that all employees will reach their full potential, and assume personal ownership for driving their own development.

- The health and safety of our employees is a top priority at Essity. During 2017, the accident frequency rate fell 6%. 26 production facilities had zero accidents.
- Essity paid approximately SEK 16bn in salary to its employees in 2017.

Society

Essity aims to contribute to a sustainable and circular society, which entails a need for new business solutions and innovations. Essity contributes to the local economy as a major employer and through its community involvement. We understand the importance of taxes in ensuring the development of society and we comply with the tax rules under which we operate. We also comply with all rules requiring us to provide transparent information about our taxes. Aside from income tax, Essity also pays customs duties, property taxes, payroll taxes, pension taxes and energy taxes.

In 2017

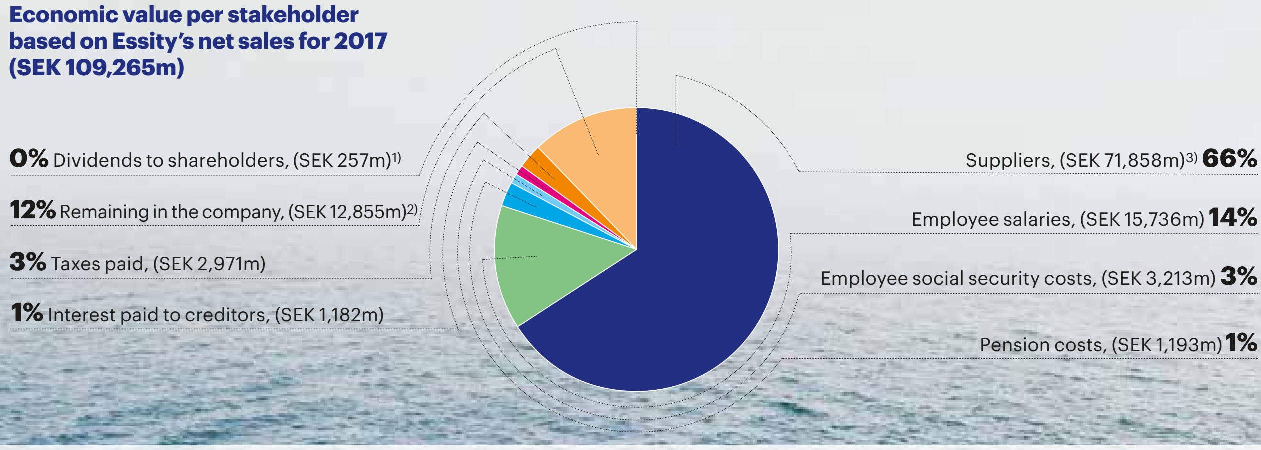
- CO_2 emissions in relation to production level were reduced by 1.3%.
- Essity paid about SEK 3bn in income taxes. Payroll taxes for the year amounted to approximately SEK 3bn.
- Essity invested approximately SEK 16m in just over 300 local community involvement projects.

Suppliers

Essity strives to have transparent, long-term relationships with our suppliers to guarantee both high quality and financial stability for both parties. Our objective for responsible sourcing encompasses all suppliers and our Global Supplier Standard serves as a basis for ensuring that the company's suppliers meet the highest standards in terms of social and environmental responsibility and product safety.

- During 2017, Essity paid approximately SEK 72bn to our suppliers.
- 64% of our procurement spend was sourced from suppliers committed to the criteria specified in Essity's Global Supplier Standard.

Economic value per stakeholder based on Essity's net sales for 2017 (SEK 109,265m)



[1] Since Essity was listed on Nasdaq Stockholm in Sweden on June 15, 2017, the company did not pay any dividends in 2017. The dividend of SEK 257m pertains primarily to dividends in the subsidiaries Vinda and Familia. [2] Current expenditures, restructuring costs, strategic investments and acquisitions. [3] Includes costs for raw materials, energy, transport and distribution, and other cost of goods sold.

Materiality analysis

The materiality analysis provides insight into the areas that are significant to Essity's stakeholders and forms the basis of the company's strategy and operations.

A total of approximately 1,000 customers, consumers, suppliers, investors, representatives of the media and the community, and Essity employees participated in the online survey carried out in 2017, which formed the basis of the materiality analysis.

Stakeholder opinions are highly significant to Essity's strategic priorities. Financial, environmental and social aspects were encompassed by the survey. The selection of subject areas to be included in the materiality analysis was guided by such governing documents as the Global Reporting Initiative, the UN Global Compact, Essity's Code of Conduct and other subjects considered to be material based on Essity's strategy. The survey covered 21 subject areas, all of which are important to Essity.

The respondents were able to select the ten areas they considered to be most important from the list of 21. The order of priority they assigned to the areas was weighed against Essity's own assessment of how important the areas are to the company's business strategy and were then placed in the materiality analysis as coordinates. The stakeholder groups' results were weighted to provide a balanced view of the results. Essity's own assessment was based on the evaluation of the top 100 senior executives.

In terms of materiality, there is a high degree of consensus between the views of stakeholders and those of Essity with respect to the top five areas. Overall, the most material areas were deemed to be business ethics, innovation, customer and consumer satisfaction, health and safety, and strong brands. Among investors and analysts, corporate governance came in second place and supply chain and purchasing in fourth. Among customers and consumers, product safety and CO_2 emissions were among the top five priority areas. Among suppliers, transparency was ranked in fourth place. The results of the survey appear to be reasonable and relevant and provide us with a basis for the further development of our strategy and operations, and for the content of the Annual and Sustainability Report.

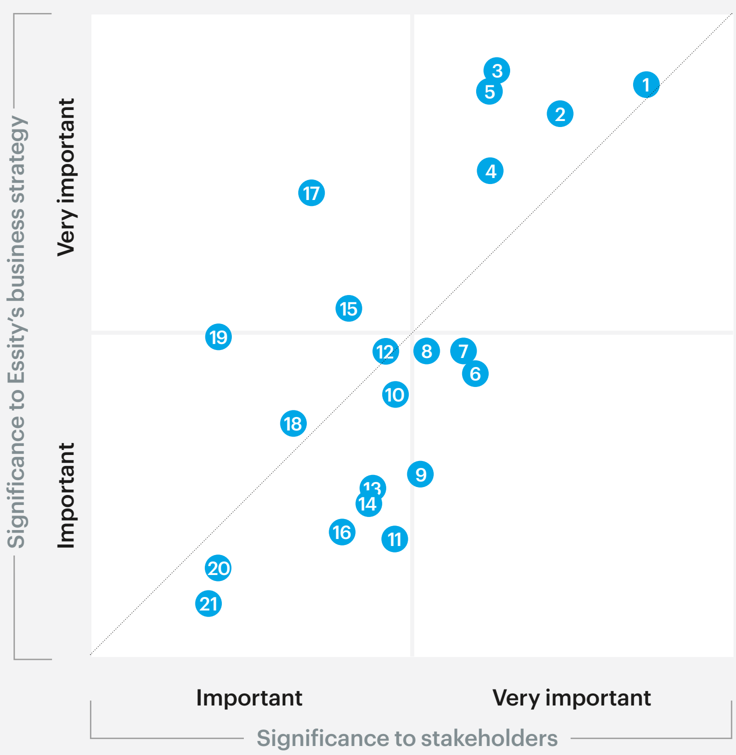
The diagram below shows how the 21 areas were ranked in the survey: the horizontal X axis shows the responses of all respondents except Essity's senior executives, whose responses are shown on the Y axis.

The following is an account of all 21 areas included in the survey and how they were ranked once all the responses were compiled.

1 Business ethics

Business ethics was given the greatest weight in the survey. Free and fair competition is an important cornerstone in every society, and for every sustainable business operation. Essity has zero tolerance for corrupt and unethical behavior. Essity's human rights and corruption risk analysis is based on assessments carried out by Amnesty, Sedex and Transparency International. Approximately 23% of Essity's revenue is generated in countries with a high risk of human rights violations. About 33% comes from

Essity's materiality analysis



The factors considered most material to Essity's stakeholders

Business ethics	1
Innovation	2
Customer and consumer satisfaction	3
Health and safety	4
Brands	5
Human rights	6
Product safety	7
Openness	8
CO_2 emissions	9
Resource efficiency	10
Water use and water purification	11
Corporate governance	12
Fiber Sourcing	13
Value chain efficiency	14
Market positions	15
Post-consumer waste	16
Human capital	17
Risk management	18
Digitalization	19
Distribution	20
Tax	21

countries with a relatively high risk of corruption.

Essity's risk assessments are also included in the Group's audits in connection with acquisitions. Anti-corruption is included in Essity's Code of Conduct. Essity conducts all activities in accordance with applicable laws and regulations, and performs regular risk assessments relating to corruption. These assessments include due diligence of suppliers and other business partners.

Essity has developed an anti-corruption e-learning course, translated into 21 languages. This e-learning is included in onboarding programs. In 2017, just over 200 new employees took part in the course. Read more about business ethics and human rights on page 37.

2 Innovation

Innovation was ranked as the second most important area by stakeholders. By maintaining close proximity to our customers and consumers, understanding their needs and transforming this knowledge into products and solutions, Essity makes a positive difference in people's everyday lives, and strengthens our market positions and brands. We work continuously to develop better products and services in which sustainability aspects are integrated into the innovation process. In 2017, we launched 41 innovations. Read more about our innovation work on pages 26–27.

3 Customer and consumer satisfaction

Customer and consumer satisfaction was ranked third in the survey. Customer understanding and consumer insight determine the innovations Essity develops and how finished products and services are delivered to the market. A dialogue with consumers is conducted through focus groups, in-depth interviews and other alternatives. Our sales representatives provide a great deal of know-how to the development team. Read more about customers and consumers on pages 24–25.

4 Health and safety

Health and safety are important to our stakeholders and critical for Essity's business. Our aim is zero workplace accidents. The health and safety of employees in the workplace is highly prioritized. In addition to promoting health and safety at our own sites, we check suppliers' practices and collaborate with them to improve safety performance. Read more about health and safety on page 80.

5 Brands

Strong brands and market positions are built on innovative products and solutions that simplify everyday life for people. Essity is a new brand as of 2017. Innovative products and solutions simplify everyday life for people and strengthen Essity's brands and market positions. Strong brands mean the company can increase the impact of its innovations. A strong corporate brand helps the company to become more attractive among potential new employees. Read more about the Essity brand and our initiatives on page 8.

6 Human rights

Violations of human rights are taken very seriously at Essity. These are reported and managed in the same way as other breaches of the company Code of Conduct. Essity's approach to human rights is informed by the United Nation's Guiding Principles on Business and Human rights (UNGP). Read more about business ethics and human rights on page 37.

7 Product safety

Essity follows strict requirements and procedures to ensure that all materials in the company's products are safe for consumers, employees and the environment. Essity has a global product safety position in place for all products to ensure that they are safe for their intended purpose. Essity's Global Supplier Standard includes responsible business operations, quality, product safety, environmental and social requirements, and the company works closely with its suppliers to ensure that its high standards are met. Read more about sustainability governance on page 81.

8 Transparency

Open and responsible communication is important to Essity. We aim to be perceived as a transparent and professional partner, and we will continue to strengthen Essity's position as a leading global hygiene and health company by being available, agile and proactive. We report our sustainability disclosures in accordance with the GRI Reporting Standards in our Annual and Sustainability Report, which is audited by external auditors. The GRI index is presented on page 162.

9 CO_2 emissions

Essity has established ambitious climate objectives and continuously endeavors to minimize emissions from its own production operations and purchased electricity. Essity's efforts to reduce its climate impact and energy use are manifested through numerous projects, investments and modifications of processes, all of which contribute individually to the target of reducing CO_2 emissions. Read more about climate and energy on page 81.

10 Resource efficiency

Essity takes a life cycle approach and promotes resource efficiency in relation to its production, products, services and innovations. We initiate partnerships and evaluate solutions to minimize waste, find alternative uses and/or create new resources – from raw materials to end-consumer.

Essity uses life cycle assessments (LCAs) to minimize waste, all the way from the product design stage to manufacturing and after use. Reducing the environmental impact of products throughout the product cycle, including the post-user phase, is part of Essity's innovation process. Read more about resource-efficient production on page 33.

11 Water use and water purification

The issue of water is being dealt with systematically. Essity strives to reduce its water usage, and monitors the volume and origin of the water it uses as well as the quality of its effluent water. Read more on page 82.

12 Corporate governance

A transparent organization and corporate governance are necessary to support Essity's strategy and ensure the Group's commitments to all of its stakeholders. Read more about corporate governance on page 84.

13 Fiber sourcing
Responsible sourcing is key for Essity and includes ensuring the Group's fiber comes from responsible sources. Essity does not own any forests but contributes to sustainable forestry through its objectives and control of its fiber sourcing, with the aim of ensuring sustainable forestry management, preserving ecosystems and biodiversity, and protecting the rights of indigenous communities. Read more about responsible sourcing on page 32.

14 Value chain efficiency
Essity's ambition is to promote sustainable and responsible business throughout its supply chain by choosing and rewarding partners who share our values and comply with our Code of Conduct Code of Conduct and Global Supplier Standard. We want to ensure safe and high-quality goods and services for our customers and consumers, delivered with respect for people and nature. Read more about sustainability governance on page 77.

15 Market positions
Strengthening Essity's positions and improving awareness of Essity's product brands fuels profitability and supports growth. Read more about the Essity's market positions on pages 44–45.

16 Post-consumer waste
Essity recognizes the need for solutions to address post-consumer waste, and the materials we use are to be compatible with current and future waste management systems. We strive to develop models for minimizing waste through the use of, for example, biodegradable materials, recycling and combustion. Read more about waste management on page 36.

17 Human capital
Human capital is assigned less importance by the stakeholders than by Essity. It appears reasonable that Essity has greater insight into how crucial the employees' attitudes and expertise are to the Group's success. Our employee surveys provide valuable knowledge about employee opinions and constitute a tool for improvement activities. It is important for Essity to attract, retain and develop top talents. Read more about our employees on page 21.

18 Risk management
Essity manages financial, social, environmental and corporate governance risks in the most efficient way possible to ensure it is able to achieve the targets set for the Group. Read more about risk and risk management on page 66.

19 Digitalization
Essity works with digitalization to maximize value creation for our customers, consumers, owners and other stakeholders. A greater digital focus entails using digital solutions to improve efficiency and productivity, build customer and consumer loyalty, continuously develop Essity's digital platforms to make our products and solutions even more accessible and create awareness of hygiene and health via social media. Read more on page 13.

20 Distribution
Essity monitors the environmental impact of its transport activities and is working on a broad front to reduce emissions. These efforts include increasing the fill ratio, applying various techniques to reduce fuel consumption, prioritizing transport means with less environmental impact, reducing distances traveled and strengthening purchasing procedures. Read more about our transport activities as part of our sustainability governance on page 82.

21 Tax
For Essity, being a good corporate citizen means paying tax and complying with laws and regulations – even the spirit of the law. Read more under Note B4 Taxes on page 115.

Sustainability governance

The purpose of sustainability governance at Essity is to guarantee the Group's commitments to its stakeholders, including customers, employees, shareholders, suppliers, creditors, decision-makers and representatives of the community. These commitments are expressed in the company's business objectives and strategies. Through an active dialogue with our stakeholder groups, we can ensure that Essity's priorities and methods are relevant over time.

Economic value creation is based on the premise that maintaining financially sound business operations is dependent on these operations being environmentally and socially sound. Economic strength and stability is a prerequisite for environmental investments and socially responsible decisions that generate long-term financial growth. Essity's objective is to achieve maximum value for its shareholders and other stakeholders, such as employees, customers and society, with minimum adverse effects. Essity has a number of policies and management systems in place to achieve and maintain its economic value creation.

Essity's overall social management approach is to assess how the company, through it operations, impacts and interacts with people and to develop strategies for establishing good relations with relevant stakeholders. Essity's main steering document in terms of social responsibility, the Essity Code of Conduct, defines areas where the company can successfully contribute to social sustainability in the Group's operations, and for various stakeholders along the supply chain. In the markets where we operate, Essity generates social value for individuals and society through our products and solutions for hygiene and health.

Essity's overall environmental management approach is to enhance the operations' positive contribution to the environment, while minimizing their negative environmental impact.

Sustainability governance

Essity's Executive Management Team bears the overall responsibility for the control of Essity's business in the field of sustainability. Essity has a Group function in charge of sustainability, led by the Senior Vice President Sustainability, who reports to the CEO and is a member of the Executive Management Team. Apart from social and environmental affairs, the function is also responsible for the Group's Public Affairs and its Compliance & Ethics function. In close collaboration with the Business Unit Presidents, the approved strategy and objectives are broken down into specific targets and activities to ensure delivery of the Group's objectives and business plans. Responsibility for implementation rests with the operational organization.

The Compliance Council is responsible for ensuring an effective compliance framework and program and securing a systematic approach to implementation of this. This Council oversees the introduction of, and compliance with, Essity's Code of Conduct and other Group policies, including the UN framework for human rights. The Council comprises Essity's Senior Vice President HR, Senior Vice President Group Sustainability (Chairman) and General Counsel. The Head of Compliance & Ethics function reports to the Council but is not a member. Essity's CEO, the head of the internal audit function and the business area presidents participate in meetings when invited.

A number of committees and networks operate horizontally across the Group's different business units to guarantee a consistent approach.

The Environmental Committee draft proposals for policies and principles for governing the sustainability work as well as objectives and action programs at Group level. The committee coordinates and follows up the Group's initiatives and objectives in the environmental area. The committee includes members

Summary of strategic components of Essity's sustainability governance

Strategic components	Economic value creation	People	Environment
Policies	• Sustainability Policy • Code of Conduct	• Sustainability Policy • Code of Conduct • Global Supplier Standard • Group Health and Safety Instruction • Community Relations Instruction	• Sustainability Policy • Code of Conduct • Global Supplier Standard
Targets and KPIs	• Financial targets • People and nature innovations • Hygiene solutions	• Code of Conduct • Employee health and safety	• Climate and energy • Fiber sourcing and biodiversity • Water • Production
Management systems, programs and certifications	• IFRS • Innovation processes • Life cycle management	• Sedex • OHSAS 18001 • Global system for performance review and development planning • Essity Leadership Platform	• ISO 9000 • ISO 14001 • Resource Management System (RMS) • ESAVE (energy) • MSAVE (raw materials) • Chain of Custody certification, FSC and PEFC • Life cycle assessments (LCAs)
External charters or initiatives	• UN SDGs • UN Global Compact	• UN SDGs • UN Global Compact • UN Guiding Principles on Business and Human Rights • European Works Council (EWC) • IndustriALL • OECD Guidelines for Multinational Enterprises • ILO Core Conventions	• UN SDGs • UN Global Compact

of all business units and representatives from all regions where the company has significant operations.

The Public Affairs Committee leads and coordinates the work in prioritized areas related to strategy, positioning and external advocacy activities.

Water management network: Proposes the Group's targets for reductions in emissions and water usage. The network also analyzes the impact of the EU's Water Framework Directive on Essity's operations.

Fiber network: Disseminates information on responsible forest management throughout the organization, and coordinates the Group's position and activities in relation to the FSC.

Resource Management Systems (RMS) network: Compiles information and makes calculations and presentations relating to resource use and environmental data.

Chemicals management network: Leads and supports development for harmonized chemical procedures and proposes group policies, priorities and objectives.

Energy network: Identifies cost-efficient solutions and synergies in connection with energy sourcing. The network also handles emissions trading.

Health and safety network: Establishes global goals and guidelines for health and safety, including definitions and procedures for accident reporting.

Supplier Code of Conduct network: Identifies ethical and social supply chain risks.

Monitoring

In addition to being reviewed by the company's external auditors, its operations are subject to external reviews and monitoring by, among others, the Swedish Financial Supervisory Authority and Nasdaq Stockholm. Life cycle assessments are another example of third-party assessments. Essity's own control systems include segregation of duties in critical processes and defined management responsibilities with regard to internal control. There is also a separate internal audit function at Essity that works to evaluate and improve the effectiveness of Essity's governance processes, risk management and internal control. Essity's internal audit organization contributes to the maintenance of high standards of business practice and is involved in the monitoring of Code of Conduct compliance through, for example, audits. To support its work, the internal audit unit has a number of steering documents and policies.

Regulatory frameworks and positioning

The regulations most relevant to Essity concern emission rights trading, energy efficiency, waste management, the Industry Emission Directive (IED), general product safety, medical devices, materials for food contact, chemical substances, cosmetics, biocide products and electronics. Essity monitors the development of all relevant regulations and ensures the environmental and human safety of all its products.

Essity has established so-called position papers that elaborate on our views on the following areas: animal testing, flushable products, genetically modified organisms (GMO), palm oil, wood fiber and triclosan (biocide). The position papers are available at www.essity.com/sustainability.

Human rights

Responsibility for the area of human rights rests with the Compliance & Ethics function. Essity's approach to human rights is based on the United Nation's Guiding Principles on Business and Human Rights (UNGP). The UNGP stipulates that as part of their commitment to respect human rights, companies must exercise due diligence in understanding and managing the actual and potential negative impact on human rights. Together with the non-profit organization BSR, Essity has identified and mapped out risks and the impact in relation to human rights through a Group-wide assessment process. The risks were graded not by the impact on business but the impact on the rights holder. The assessment revealed three salient issues:

- Labor-related risks, including occupational health and safety, discrimination, forced labor and right to equal work for equal pay in Essity's direct and indirect operation (supply chain).
- Land rights risks associated with the sourcing of timber, fiber, and pulp – especially where indigenous communities are present.
- Risks related to water use by Essity's operations located in water-stressed regions that may infringe on the rights of local communities to water and sanitation.

Since then, this method was replicated at the business area and function level. The business area in Latin America was the first to implement an equivalent assessment and subsequent action plan for risks deemed to be most relevant to their business environment. An equivalent mapping process was also carried out by the sourcing department in various sourcing categories.

Code of Conduct

Essity's Code of Conduct is the main steering document in responsible business operations. Essity's Code of Conduct applies to all employees within the Group.

Essity's Code of Conduct is based on international standards, including the UN Declaration of Human Rights, the ILO Core Conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact Principles and related legislation. All employees are provided with the necessary training and other prerequisites to comply with Essity's "Beliefs & Behaviors" and Code of Conduct.

Essity expects its joint-venture companies to implement a Code of Conduct and guidelines equivalent to those stipulated in Essity's Code of Conduct.

Code of Conduct training

Systematic activities, such as risk analyses, regular training, audits and other monitoring processes are in place to ensure compliance with the Code. All employees are regularly trained in the Code of Conduct, including human rights, and what to do if they wish to report a breach. In addition to this, the Code of Conduct is included in all on-boarding programs across the company.

Procedures for reporting breaches

Essity offers its employees a number of channels for reporting breaches of the law or the Code of Conduct, such as through their line manager, HR Director, legal counsel or the compliance function. Employees also have the opportunity to use a whistleblower system managed by an external party. Employees are able to report breaches anonymously, where permitted by law. The external whistleblower system is currently available for use in some 30 countries.

Code of Conduct audits
Essity's internal audit unit monitors compliance with the Code of Conduct. The facilities to be audited are determined by such factors as the social and environmental risks in the country of operation, whether the facility is a recent acquisition or if there are any indications of non-compliance with Essity's policies.

The content of the audits emanates from Essity's Code of Conduct, while the approach and 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 for the audited unit, which are followed up. The results of the audits are reported to Essity's Board via the Audit Committee.

Competition rules
Essity has a comprehensive program for compliance with competition rules. The training program is mandatory for employees who encounter these issues during the course of their work.

The program includes risk analysis, e-learning, guidelines and recurring training sessions.

Business practice audits
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. A large number of interviews are performed with managers and employees to ensure the effectiveness of the control environment and challenges in the local environment.

Employees

Essity offers its employees development opportunities and remuneration based on market rates. Remuneration comprises salary, pension and other benefits. Employee remuneration is to be competitive. Essity follows local remuneration structures, provided they do not conflict with internationally established rules for minimum wages and reasonable compensation.

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 perceived as a great place to work.

Secure access to the right people and capabilities
Essity recruits and develops employees in line with its strategic workforce plan. This plan is based on future capability needs and demographics, and defines the strategic areas and activities Essity will focus on to strengthen its reputation as an employer and its market position.

Individual development
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. The objective is to follow up the performance of every employee twice a year.

A safe and healthy workplace based on ethical business practices
Essity works proactively with employee health and well-being. Each business unit is responsible for formulating a health program that suits its own operations.

Workplaces for all ages
With an aging workforce in some markets, Essity is facing new challenges since absence related to musculoskeletal disorders increases with age. This insight has resulted in Essity creating a workplace program containing technical improvements and attitude changes to create a more ergonomic work environment and production lines.

Employee relations
Transparent communication is fundamental to the trust between Essity and its employees, as well as their representatives. Essity recognizes the right of all employees to join unions and to partake in union activities.

European Works Council
The European Works Council (EWC) represents about 20,000 of Essity's employees. Essity meets the EWC and other employee representatives on a regular basis to inform them of, and discuss, matters such as the Group's performance and earnings, as well as health and safety and employment terms and conditions. The aim is to communicate changes well ahead of time.

Essity also has an agreement with IndustriALL Global Union. A new agreement between Essity and IndustriALL is under negotiation and is expected to be completed in the first quarter of 2018. IndustriALL represents 50 million employees in 140 countries in the mining, energy and manufacturing sectors.

Alternative forms of dialogue
In parallel with Essity's expansion, the Group encounters new circumstances and challenges, including challenges pertaining to its employee dialogue. When there is no union representation, Essity establishes other channels where possible, such as workers' councils.

Essity supports Global Deal, a global partnership with parties in the private and public sector. The aim of Global Deal is to improve the dialogue between parties in the labor market and national governments to improve employment conditions and productivity.

Organizational changes
The notice period in connection with organizational changes in the Group varies, but averages about five weeks. 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 action plan normally includes assistance in seeking employment and/or education. Other tools include severance pay,

early retirement and financial incentives for those who find new jobs before the end of the period of notice.

Health and safety

OHSAS 18001 certification

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 continuously improve their workplace health and safety. OHSAS specifies requirements for an organization's occupational health and safety management systems.

Safety policy and governance

Essity has a Group Health and Safety Instruction and the Group's governance system encompasses risk assessment, training, targets and monitoring in the safety sphere. In addition, a reference team has been in place since 2009 with responsibility for coordinating Group health and safety matters. All Essity facilities have procedures in place to increase workplace safety.

Accident and risk/near miss reporting

Reliable near miss and accident reporting is key; it is vital that Essity analyze both serious and less serious occurrences to ensure that they are not repeated.

Essity has a reporting system for accidents and risk observation in place. Employees use it to report accidents and close calls, meaning events that could have led to an accident. The system significantly improves Essity's ability to perform risk assessments, analyze and improve working methods, and continuously monitor performance.

In the event of a critical incident, information is communicated to the entire Group, enabling all units to gain access to the recommendations and learn from the occurrence. Another part of the unit procedures involves gathering data from the reporting system on a weekly basis so that safety can be addressed at staff meetings. The system also allows for best practices to be disseminated throughout the Group.

Customers and consumers

Complaints procedures

Essity has a global SAP-based complaint handling system that was introduced in 2011. The Group seeks to compensate unsatisfied customers directly and determine whether a need exists for further measures beyond the individual case. For example, production personnel receive feedback to determine whether a production fault was the underlying cause. User complaints and opinions provide valuable consumer insight and it is important that the knowledge gathered is transferred to the organization.

Essity's innovation process

Essity's innovation process originates in an understanding of a customer or consumer need. The process is divided into four phases.

Feasibility: Innovation concepts based on customer or consumer insight are elaborated and validated. The market situation and the global business potential are assessed, and high-level technological and commercial feasibility are evaluated.

Development: A cross-functional project team leads the development of a proposed solution, including a specific product, service or business model. Requirements of the product, packaging, service and technology are developed and verified with customers and consumers, and communication materials are prepared. Product safety assessments for materials, life cycle assessments (LCAs) and social assessments are performed by experts to ensure product safety and environmental and social performance.

Capacity: The project works toward market launch and building the capability to deliver. Marketing materials are created, the production solution is verified against requirements, and all product and packaging specifications are finalized. The fulfillment of the regulatory requirements governing products in all markets is secured.

Launch: The innovation is introduced to customers/consumers in the market. The intended benefits are weighed against market feedback; the supply chain is adjusted accordingly. Supply and demand balance is optimized in production to ensure efficiency. The feedback then drives the roll-out plan.

Open innovation

Essity has a portal for open innovation. Inventors, entrepreneurs and small companies are invited to submit solutions in response to various challenges from Essity. The solutions should be patented so that there are no outstanding issues regarding intellectual property rights should the proposal result in a licensing agreement or other type of business arrangement. A number of proposals have been submitted this way and some of them have led to further collaboration or product launches.

Essity launched an internal innovation platform in 2013 called ICON (Idea Collaboration Online). ICON is not limited to product innovations. Proposals may include manufacturing, logistics or marketing solutions. ICON complements other platforms and initiatives to spur innovation and is frequently used in early phases of the innovation process to gather solutions and ideas from employees.

Life cycle management

Essity works with a life cycle perspective to understand the environmental, social and societal impacts of our products and solutions. This enables Essity to deliver products and solutions that meet customers' needs and exceed their expectations. We promote life cycle thinking in our sourcing, production and development of innovations.

Responsible sourcing involves seeking high-quality, safe, environmentally and socially sound raw materials. Essity's suppliers adhere to strict standards, including criteria for quality, product safety, environment, chemicals and business responsibility.

Resource-efficient production focuses on an efficient use of resources and on reducing energy consumption and waste. The production units apply management systems such as ISO 9001, ISO 14001 and OHSAS 18001.

Sustainable solutions are defined as innovative, safe, environmentally and socially sound hygiene products and services. Essity's innovations for people and nature are based on customer and consumer insight with a focus on meeting needs in daily life. It is essential to optimize products and solutions during use to control consumption and reduce waste.

Waste management of products is a common responsibility for Essity and customers and consumers. Energy recovery through incineration is a good alternative to landfill for personal care products. Essity is actively exploring waste treatment methodologies, such as recycling of materials and composting.

Life cycle assessments

Essity has used life cycle assessments (LCAs) since the early 1990s. An LCA illustrates the complete environmental impact of a product based on the ISO 14040 and 14044 standards as well as product-specific rules in place for hygiene products. It is a standardized measurement of environmental impact in every phase of the product, from raw materials, product development, production and use to disposal of waste.

For each activity in the life cycle, an LCA calculates the input of resources, energy and transportation and the output of, for example, emissions to air and water.

The result of an LCA is expressed in environmental impact categories. The LCAs conducted by Essity cover the main impact categories that describe the potential impact on global warming/climate change, meaning the product's carbon footprint, acidification of rivers and lakes, and eutrophication of land or water systems.

Product safety

Essity follows strict requirements and procedures to ensure that all materials in the company's products are safe for consumers, employees and the environment. Essity has global product safety 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 that its high standards are met. In recent years, there has been an increased focus on issues related to product safety, a trend that continued in 2017.

The chemicals used in the production process are managed under strict controls. Their potential impact on employees, customers and the environment is evaluated. Only chemicals that meet Essity's stringent safety requirements are chosen.

It is critical that Essity complies with all prevailing laws and regulations that apply to its products. We do this for products where marketing permits/licenses from an authority are required to launch and keep our products on the market, but it is equally important that we comply with regulatory requirements for products where no approval is required for sale. Otherwise, risk products cannot be launched or may need to be taken off the market.

Manufacturing

Fiber sourcing

Fiber sourcing target

Essity has a target for sourcing of fresh fiber. The target states that all fresh wood fiber-based raw material in our products will be FSC® or PEFC™ certified, or fulfill the FSC's standard for Controlled Wood. Essity endeavors to continuously increase its share of FSC-certified fiber. The target includes all deliveries of fresh wood fiber (timber, pulp, packaging, mother reels and articles supplied by third parties) to Essity's production sites.

A global fiber database

Essity has a global fiber sourcing policy in place and a shared business system – the Global Fiber Database – for the assessment and purchase of fiber in compliance with Essity's forest management policies. The database includes all of the Group's pulp, recovered fiber and alternative fiber suppliers. It provides the purchasing function, environmental department, R&D department and production facilities with fast and easy access to important information about suppliers: region of supply, wood species, pulp specifications and bleaching methods.

The information also includes the suppliers' product certification status: FSC® (Forest Stewardship Council), PEFC™ (Programme for the Endorsement of Forest Certification), Controlled Wood, ecolabels and ISO 9000. As a result, Essity can ensure traceability, the R&D department can check the availability of a certain raw material and the mills can show customers exactly what has been purchased. The database is continually updated to support Essity's global operations.

Supplier verification

Essity requires fiber pulp suppliers to guarantee that they have robust systems and documented procedures in place to ensure traceability and compliance throughout the supply chain.

All fiber pulp suppliers are Chain of Custody certified according to the FSC. Essity's fresh wood based fiber sourcing policy includes a step-by-step process to support suppliers in their transition to third party certification.

Climate and energy

Science-based carbon target

Essity has undertaken to develop a science-based target for the reduction of greenhouse gas emissions in the company. This will be established in 2018 and we expect that investments and extensive actions will be required to achieve the target.

Reduction targets are considered science-based if they are in line with what is needed in order to keep the global temperature rise below 2 degrees Celsius, as agreed by world leaders at the UN climate change conference (COP 21) in Paris in 2015. The Science Based Targets initiative is a partnership between CDP (formerly known as the Carbon Disclosure Project), the UN Global Compact, the WRI (World Resources Institute) and the WWF (World Wide Fund for Nature). Science Based Targets helps companies determine which emission reductions they need to achieve in order to prevent the worst impact of climate change.

ESAVE

Since 2003, the ESAVE energy-efficiency program has contributed to energy savings and improved efficiency in all operative business units.

Improved energy efficiency is an integral part of daily life at Essity. ESAVE is a program that encompasses investments in energy-efficient technical solutions, the involvement of employees in daily improvement activities and a general change in attitude toward the use of energy at Essity. Knowledge sharing is leveraged across the Group through training and various networks, and ESAVE is part of several onboarding programs for young engineers. Best practices are shared digitally, in real time, to achieve energy-efficiency excellence by learning from others. Essity also cooperates with external stakeholders, such as machinery suppliers, to ensure continued leadership in energy efficiency and continuous improvements. All new equipment is energy efficient by design and ESAVE is part of the planning criteria.

A typical ESAVE project could involve reducing electricity consumption by improving or replacing pumps, compressors, fans or lighting, or by optimizing thermal drying processes. Experiences are documented and provide effective support for future improvement efforts.

MSAVE

Essity has also introduced a material savings program, MSAVE, using the same philosophy and methodology as ESAVE. The program aims to achieve the best cost while minimizing the environmental impact from raw materials and waste. Best practice is shared across the sites worldwide.

MSAVE initiatives can focus on optimizing the tissue machine fiber mix and chemical dosage scheme, reducing the amount of packaging materials, reusing the tissue waste in our processes or converting waste into by-products to be used as raw materials in other industries.

Water

Water usage treatment

Essity works continuously to enhance its effluent treatment and thus the quality of the effluent water discharged from its plants. Mechanical treatment removes suspended solids, sand and particles, while biological treatment extracts dissolved solids and organic impurities that affect biological oxygen demand (BOD) and chemical oxygen demand (COD).

Waste management

Essity follows a life cycle approach that includes purchasing, production, use and waste management. This means we use life cycle assessments (LCAs) to identify resource-efficient solutions and minimize waste, all the way from the product design stage to manufacturing and after use.

Production waste target

We adopted a production waste target in 2016: "All solid production waste will be recovered by 2030."

Products and solutions

Essity continuously works to develop product designs and materials. Reducing the environmental impact of products throughout the product cycle, including the post-user phase, is part of Essity's innovation process. We accomplish this by working to continuously make more efficient use of our resources and by developing products designed to reduce consumption and thereby waste.

Post-consumer and customer waste

Tissue products comprise renewable fibers that contribute to renewable energy and combustion. Thanks to their biodegradability, they are well suited to composting and digestions. Compostability is based on tests according to existing composting standards. We have also initiated a pilot project for the recycling of used paper hand towels.

For our products in the Personal Care business area, energy recovery through combustion is a good alternative to landfill. There is currently no infrastructure and no established business models for collecting and recycling used products. We are working proactively with external partners to assess other alternatives for recycling.

Transport

Essity monitors the environmental impact of its transport activities and is working on a broad front to reduce emissions. These efforts include increasing the fill ratio, applying various techniques to reduce fuel consumption, prioritizing transport means with less environmental impact, reducing distances traveled and strengthening purchasing procedures.

Shipping

Essity's shipping mainly comprises fiber pulp. For transport from the port to the plant, Essity uses barges and rail transport wherever possible.

Road transport

Essity engages in a number of collaboration projects to cut transport emissions, such as Lean & Green in the Benelux countries, Germany and Italy, FREIGHT21 in France and numerous other local initiatives aimed at reducing CO_2 emissions. Essity is also test-driving trucks with a larger cargo volume in various markets to reduce the number of trips needed to transport tissue.

Rail transport

Since rail transport is a carbon-efficient alternative, it is a prioritized transport means for Essity. However, rail transport accounts for a small share of Essity's total freight, partly due to restrictions in the rail-network. Essity uses multimodal transport for distances exceeding 500 km. If there is no direct rail connection, Essity requests that its suppliers use rail to the greatest extent possible, supplemented by truck transport.

Supply chain management

Global Supplier Standard

Essity has applied a Global Supplier Standard (GSS) for many years. The standard includes requirements concerning quality, product safety, the environment, energy and chemicals. The GSS also contains a specific section that includes Essity's expectations of its suppliers with regard to human rights, employee relations, and health and safety.

To ensure the GSS is implemented by all suppliers globally and locally, it has been made available in 11 languages.

Many of the global, strategic suppliers' production facilities located in Asia and Latin America belong to large multinational corporations based in Europe and the US, a conscious choice by Essity to reduce ethical risks within our supply chain.

Reporting in the Supplier Ethical Data Exchange, Sedex

Sedex is an online database that enables suppliers to share information with their customers on their trading practices (health and safety, labor standards, the environment and business ethics) in order to promote ethical and responsible supply chains. Essity requires suppliers to perform a self-assessment in Sedex and share their status. The long-term goal is for at least 90% of our purchases to come from suppliers that share information through Sedex. The answers are used for risk assessments (see below).

Processes for supplier risks

Essity continuously develops its supplier risk assessment to ensure compliance with social and ethical sustainability criteria, including respect for human rights and working conditions. Sustainability matters are taken into consideration both when evaluating potential suppliers and in the continuous risk assessment of suppliers and purchased materials, products and services. One source of input is the supplier data registered in Sedex, but other risk-related input is also considered.

Ethical supplier audits

Purchases from suppliers in countries classified as high-risk countries according to the Maplecroft Human Rights Index are audited with a focus on health and safety, human rights and employment conditions. An ethical audit of a supplier can also be triggered by other indicators, such as a low rating in Sedex, a low health and safety score in Essity's supplier qualification audit or the outcome from Essity's risk assessments.

The goal is to audit all high-risk suppliers, based on Essity's risk assessment procedure. Essity works with the global auditing company SGS to perform the audits. Essity also accepts independent audits or audits performed on behalf of other clients if the topics covered match Essity's audit requirements and information about corrective and preventive action is shared.

The Group evaluates potential suppliers prior to contracting and continues to review suppliers at regular intervals. New suppliers must sign the GSS prior to any business activities. Essity also conducts chain of custody audits of fiber suppliers.

In addition, Essity requires documented chain of custody from suppliers if a product 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 from the Responsible Minerals Initiative.

Control of cotton providers

Some of Essity's hygiene products contain cotton fibers. The volumes are exceedingly small but since cotton agriculture is associated with social risks, Essity pays particular attention to its cotton suppliers. In order to reduce the environmental and social impact, Essity's goal is for all purchased cotton to be certified to ensure sustainable production. In 2017, Essity became a member of the BCI (Better Cotton Initiative), one of the world's largest sustainability programs for cotton and the preferred cotton certification standard.

In early 2017, Essity acquired BSN medical, which conducts large-scale production of plasters and adhesive bandages. A review and risk analysis of BSN medical's suppliers has been initiated based on production country and input materials, including cotton, with the aim of ensuring a long-term sustainable supply chain.

Community relations

Essity strives to be a dedicated partner in the local communities in which it operates. In accordance with Essity's guidelines for community relations, the company prioritizes initiatives with a clear link to Essity's operations, expertise, culture and geographic presence. Much of Essity's efforts are related to hygiene and health, and are often directed at women and children. Examples of Essity's community involvement are available at www.essity.com/sustainability.

Corporate governance

The task of corporate governance is to ensure the Group'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 2017 Annual Report. The report has been reviewed by the company's auditors.

Corporate governance, including remuneration, pages 84–93.

This section describes applicable regulatory rules and regulations for the Group's corporate governance and the company's management structure and organization. It also 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, page 89

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 the internal rules 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 risk and costs, strengthen competitiveness and attract new employees and investors.

Governance at Essity

■ General shareholder meeting

The general shareholder meeting is Essity's highest decision-making body, which all shareholders are entitled to attend, to have a matter considered and to vote for 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 on voting rights in respect of shares used by shareholders at the general shareholders meeting.

□ 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. Most members shall be independent of the company and corporate management. The CEO and other member 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.

■ 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, management team, guidelines and 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 ten members elected by the shareholders at the 2017 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 share or to repurchase new 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 continuously monitoring the company's operations in close dialog with the President and CEO 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.

Audit Committee

The role of the Audit Committee, without prejudice to the Board of Director's responsibility and other duties, 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 accounts and consolidated accounts 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 concerning the conducted audit that the auditor submits in accordance with the EU Audit Regulation and Directive. 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 may not be employed by the company and at least one member must have accounting or auditing expertise.

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 CEO and is authorized to make decisions in these matters for the company's 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.

Internal audit
The internal audit assess and improves the effectiveness of Essity's internal governance and control as well as risk management. This function 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 function examines, among other aspects, Essity's internal processes for sales, financial reporting, IT systems, HR issues, various types of projects and compliance with Essity's policies, including the company's Code of Conduct. The function also offers internal consultancy services in connection with internal control matters and risk management.

President and CEO

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 92–93, the work of which is led by the CEO. The Executive Management Team comprises the CEO, CFO, four Business Unit Presidents, the Presidents of three global units, and Senior Vice Presidents of five Group functions. 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.

Business units and global units:

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

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

- Global Hygiene Category (GHC), with global responsibility for customer and consumer brands and innovation.
- Global Hygiene Supply Tissue (GHS-T), with global responsibility for sourcing, production, logistics and technology in Consumer Tissue and Professional Hygiene.
- Global Hygiene Supply Personal Care (GHS-PC), with global responsibility for sourcing, production, logistics and technology in Personal Care.

Essity's business units adhere to the principle of distinct decentralization of responsibility and authority. The business units are fully responsible 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, the CFO and others. 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 Parent Company's Board of Directors. Essity divides and reports its operations according to three business areas – Personal Care, Consumer Tissue and Professional Hygiene.

External auditors

The Company's auditor, elected at the Annual General Meeting, examines Essity's annual report and consolidated financial statements and the Board's and President's administration, and submits an audit report.

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

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 (such as financial, communications, risk management, pension, HR and diversity) and instructions

Certain external rules and regulations

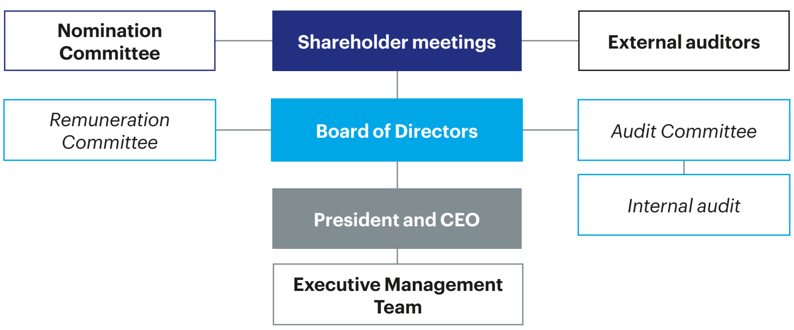
- The Swedish Companies Act
- The Swedish Annual Accounts Act
- International Financial Reporting Standards (IFRS)
- EU Market Abuse Regulation (MAR)
- Nasdaq Stockholm's rules for issuers
- Swedish Code of Corporate Governance

Compliance with stock market regulations

Essity 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 2018 Annual General Meeting (composition, proposals and work)
- Other information ahead of the 2018 Annual General Meeting (notice, Board proposal for principles for remuneration of senior executives, information routines for notifying attendance at the Meeting, etc.)



Activities during the year

Annual General Meeting

Essity shares were admitted for trading on Nasdaq Stockholm on June 15, 2017. Ahead of the listing, the company held an AGM on Wednesday, April 5, 2017.

The 2017 AGM elected the following persons to the company's Board of Directors: Ewa Björling, Pär Boman, Maija-Liisa Friman, Annemarie Gardshol, Magnus Groth, Johan Malmquist, Bert Nordberg, Louise Svanberg, Lars Rebien Sørensen and Barbara Milian Thoralfsson. Pär Boman was elected as the Chairman of the Board. Moreover, guidelines for determining the salary and other remuneration of the President and other senior executives were adopted, see page 88 and Note C3 on pages 117–119.

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 Annual General Meeting in respect of the election of the Chairman at General Meetings, 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 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 not later than by six months prior to the Annual General Meeting. 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 2018 AGM

The composition of the Nomination Committee for the 2018 AGM is as follows:

- Helena Stjernholm, AB Industrivärden, Chairman of the Nomination Committee
- Petter Johnsen, Norges Bank Investment Management
- Stefan Nilsson, Handelsbanken Pension Funds and others
- Javiera Ragnartz, 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 2018 AGM is presented in the notice convening the AGM available on Essity's website www.essity.com. The 2018 AGM will be held on April 12; see page 40.

The Nomination Committee was convened on three occasions prior to the 2018 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 2018 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 an appropriate gender distribution on both the Board and the

Board of Directors and committees

			Committees		Attendance[1]		
Board of Directors	Elected	Dependence	Audit	Remuneration	Board of Directors (11)	Audit Committee (5)	Remuneration Committee (7)
Ewa Björling	2016				11/11		
Pär Boman	2016	■	x	Chairman	11/11	5/5	7/7
Maija-Liisa Friman	2016				11/11		
Annemarie Gardshol	2016				11/11		
Magnus Groth	2016	■			11/11		
Johan Malmquist	2016				11/11		
Bert Nordberg	2016		x	x	11/11	5/5	7/7
Louise Svanberg	2016			x	11/11		7/7
Lars Rebien Sørensen	2017				8/8		
Barbara Milian Thoralfsson	2016		Chairman		11/11	5/5	

1) Board meetings January 1–December 31, 2017.
■ = Dependent in relation to the company's major shareholder, AB Industrivärden.
■ = President of Essity, dependent in relation to the company and the Executive Management Team.

Composition of the largest shareholders, Nomination Committee at August 31, 2017 (share of votes)

	%
AB Industrivärden	29.8
Norges Bank Investment Management	8.3
Handelsbanken's foundations, etc.	3.5
MFS Investment Management	2.7
AMF and AMF Fonder	2.2

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 ten members elected by the AGM.

Ewa Björling, Pär Boman, Maija-Liisa Friman, Annemarie Gardshol, Magnus Groth, Johan Malmquist, Bert Nordberg, Louise Svanberg, Lars Rebien Sørensen and Barbara Milian Thoralfsson were elected to the Board in 2017. Pär Boman was elected as the Chairman of the Board.

The independence of Board members is presented in the table on page 86. 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 company 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 50% of the total number of AGM-elected Board members. The employees have appointed Tina Elvingsson, Örjan Svensson and Niclas Thulin as representatives to the Board for the period until the 2018 AGM, and their deputies Niklas Engdahl, Martin Ericsson and Paulina Halleröd.

Board activities

In 2017, the Board was convened 11 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 statements. The Board also establishes and evaluates the company's overall objectives 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 auditors regularly present a report on their audit work and these issues are discussed by the Board. The Business Unit Presidents present reports on their respective operations and current issues affecting them.

To gain more insight into Essity's North American operations, the Board completed a visit to the US during the year. In 2017, one focus area for the Board, in addition to standard Board duties, was also preparations for the distribution of shares in Essity to SCA's shareholders and the following listing on Nasdaq Stockholm that took place on June 15, 2017. Another focus area was the acquisition of BSN medical, which was complete on April 3, 2017, and follow-up work in integrating BSN medical into the company's organization.

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 which 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 five meetings during the year. In addition, members have also held internal 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 and 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 seven meetings in 2017. Activities mainly concerned remuneration and other employment terms and conditions for senior executives, and current remuneration structures and remuneration levels in the Group.

Internal audit

The basis of the work of the internal audit is a risk analysis conducted in cooperation with Essity's management team. The risk analysis concludes in an audit plan, which is presented to the Audit Committee. In 2017, 115 audit projects were performed and reported at meetings with the Audit Committee.

Work in 2017 involved follow-up of the units' progress with process-based control, follow-up of the efficiency in internal governance and control, and follow-up of compliance with Essity's policies. The audit plan was reworked during the year due to the split from SCA and the acquisition of BSN medical.

External auditors

The 2017 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. The auditor owns no shares in the company.

In accordance with its formal work plan, the Board met with the auditors at two scheduled Board meetings in 2017. The auditors also attended each meeting of the Audit Committee. At these meetings, the auditors 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 auditors delivered an in-depth verbal report on the audit for the year. The working procedures specify a number of mandatory issues that must be covered. 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 procedures. 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 2017 Annual General Meeting 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 C3 on page 117. Corresponding guidelines have been proposed to the 2018 AGM, see page 62.

Remuneration of the President and other senior executives
Remuneration of the President and other senior executives is presented in Note C3 on pages 117–119. Variable remuneration for the CEO, CFO and Business Unit Presidents was maximized to a total of 100% of the fixed salary for 2017. For two Business Unit Presidents, stationed in Latin America and the US, the maximum outcome is 110–130%, while the corresponding limit for other senior executives is 90%.

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, operating margin and organic sales growth. The long-term program is based on the Essity share's long-term total shareholder return.

Remuneration of the Board
The total remuneration of the AGM-elected Board members amounts to SEK 8,875,000 in accordance with the AGM's resolution. See Note C4 on page 119 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 statements. The Committee has charged the company's auditors 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 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.

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 six-month 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 Risk and risk management on pages 66–71.

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 control measures.

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 Internal audit on page 87.

The Board follows up to ensure that the internal control and reporting to the Board functions through continuous reporting from the CEO 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 policies, and the results of this follow-up are reported to the Board through the Audit Committee.

Activities in 2017

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

Accounting and reporting of several units are to a certain extent co-located, in shared service centers, which made reporting more efficient and uniform.

Board of Directors and Auditors

Elected by the Annual General Meeting

Pär Boman (1961)
Engineer, Economist, Hon PhD Econ
Chairman of the Board since 2016 (Chairman of SCA since 2015). 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. Former President and CEO of Handelsbanken and prior to this Vice President of Handelsbanken. Other senior positions at Handelsbanken 1998–2002.
Elected: 2016 (elected in SCA 2010)
Class B shares: 3,000
Independent of the company and corporate management.

Ewa Björling (1961)
Med. Dr. Sci. and Associate Professor from Karolinska Institutet.
Member of the boards of Biogaia AB and Mobilaris AB, and former member of the Boards of the Swedish National Insurance Office and the Swedish International Development Cooperation Agency (SIDA). Minister for Trade 2007–2014, and Minister for Nordic Cooperation 2010–2014. Previously Karolinska Institutet.
Elected: 2016 (elected in SCA 2016)
Independent of the company, corporate management and Essity's major shareholders.

Maija-Liisa Friman (1952)
MSc Eng.
Member of the Boards of Finnair, the Securities Market Association and Boardman Oy. Former Chairman of Helsinki Deaconess Institute, Vice Chairman of Neste Corporation, member of the Boards of TeliaSonera, Rautaruukki, Metso, Ekokem and Talvivaara Mining Company Plc. Former CEO of Aspocomp Group Plc 2004–2007 and prior to this served as the President of Vattenfall Oy and Gyproc Oy.
Elected: 2016 (elected in SCA 2016)
Independent of the company, corporate management and Essity's major shareholders.

Annemarie Gardshol (1967)
MSc Eng.
Member of the Board of Svenska Cellulosa Aktiebolaget SCA. President of PostNord Sverige AB, member of PostNord's corporate management team since 2012. 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 (elected in SCA 2015)
Class B shares: 1,100
Independent of the company, corporate management and Essity's major shareholders.

Johan Malmquist (1961)
MSc Econ.
Chairman of the board of Arjo AB and Tingstad Papper AB. Member of the Board of Elekta AB, Getinge AB, Stena Addactum, Trelleborg AB, Mölnlycke Health Care AB, Dunkerintressen and the Chalmers University of Technology Foundation. Former President and CEO of Getinge AB 1997–2015. Former member of the Board of Capio AB.
Elected: 2016 (elected in SCA 2016)
Class B shares: 4,000
Independent of the company, corporate management and Essity's major shareholders.

Bert Nordberg (1956)
Engineer
Chairman of the Board of Vestas Wind Systems A/S. Member of the Boards of AB Electrolux, 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 and Axis AB.
Elected: 2016 (elected in SCA 2012)
Class B shares: 16,800
Independent of the company and corporate management.
and Essity's major shareholders.

Louise Svanberg (1958)
MSc Econ.
Member of the Board of CERAS Health, New York and member of the Advisory Board for Cue Ball Capital, Boston. Previously held various management positions in EF, including President 2002–2008 and Chairman of the Board 2008–2010. Former member of the Board of Careers Australia Group Ltd.
Elected: 2016 (elected in SCA 2012)
Class B shares: 15,000
Independent of the company, corporate management and Essity's major shareholders.

Lars Rebien Sørensen (1954)
BSc Forestry and MSc Econ.
Deputy Chairman of the Board of Carlsberg A/S. Member of the Boards of Jungbunzlauer, Novo Holding A/S, Novo Nordisk Foundation and Thermo Fisher Scientific Inc. Former President and CEO of Novo Nordisk 2000–2017.
Elected: 2017
Independent of the company, corporate management and Essity's major shareholders.

Barbara Milian Thoralfsson (1959)
MBA, BA
Chairman of the Board of ColArt Group Holdings Ltd. 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 (elected in SCA 2006)
Independent of the company, corporate management and Essity's major shareholders.

Magnus Groth (1963)
MBA and MSc ME
President and CEO of Essity. Member of the Board of Acando AB. Former President of SCA Consumer Goods Europe. 2011–2015. Former President of Studsvik AB (publ) 2006–2011 and SVP of Vattenfall 2001–2005.
Elected: 2016 (elected in SCA 2015)
Class B shares: 34,000
Independent of Essity's major shareholders.

Appointed by the employees

Tina Elvingsson Engfors (1967)
Operator at Essity Hygiene and Health AB, Falkenberg
Member of the Swedish Trade Union Confederation (LO).
Appointed: 2017
Class B shares: 225

Örjan Svensson (1963)
Senior Industrial Safety Representative at Essity Hygiene and Health AB, Lilla Edet.
Member of the Swedish Trade Union Confederation (LO).
Appointed: 2017 (appointed in SCA 2005)
Class B shares: 75

Niclas Thulin (1976)
Team Leader Collaboration & Workplace at Essity Hygiene & Health AB, Gothenburg
Other current assignments: Limited partner of TH Tryck & Reklam Kommanditbolag.
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2017

Deputies

Niklas Engdahl (1980)
Employed at Essity Hygiene and Health AB, Lilla Edet.
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2017

Martin Ericsson (1968)
Employed at Essity Hygiene and Health AB, Falkenberg
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2017
Class A shares: 200
Class B shares: 200

Paulina Halleröd (1967)
Employed at Essity Hygiene and Health AB, Falkenberg
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2017 (appointed in SCA 2013)
Class B shares: 370

Auditors

Ernst & Young AB
Senior Auditor: Hamish Mabon
Authorized Public Accountant

Secretary to the Board

Mikael Schmidt (1960)
Master of Laws
Senior Vice President, Group Function Legal Affairs, General Counsel
Employed since: 1992
Class B shares: 19,000

Executive Management Team

Magnus Groth (1963)
President and CEO
MBA and MSc ME
Employed since: 2011
Class B shares: 34,000

Fredrik Rystedt (1963)
CFO and Executive Vice President
Head of Group Function Finance
MSc Econ.
Employed since: 2014
Class B shares: 13,200

Joséphine Edwall Björklund (1964)
Senior Vice President, Group Function Communications
BSc in Communications
Employed since: 2012
Class B shares: 6,400

Pablo Fuentes (1973)
President, Latin America
MSc Econ, MBA
Employed since: 2006
Essity ADR: 2,707
Class B shares: 9,448

Donato Giorgio (1973)
President, Global Hygiene Supply Tissue
MSc Eng.
Employed since: 2009
Class B shares: 3,672

Ulrika Kolsrud (1970)
President, Global Hygiene Supply Personal Care
MSc Eng.
Employed since: 1995
Class B shares: 3,653

Margareta Lehmann (1958)
President, Health and Medical Solutions
MSc Econ.
Employed since: 1983
Class B shares: 12,414

Don Lewis (1961)
President, Professional Hygiene
MSc Econ.
Employed since: 2002
Essity ADR: 18,746

Mikael Schmidt (1960)
Senior Vice President, Group Function Legal Affairs, General Counsel and Secretary of the Board
Master of Laws
Employed since: 1992
Class B shares: 19,000

Georg Schmundt-Thomas (1962)
President, Global Hygiene Category
PhD, MA
Employed since: 2016
Class B shares: 1,300

Robert Sjöström (1964)
Senior Vice President, Group Function Strategy and Business Development, Global Business Services and IT
MSc Econ, MBA
Employed since: 2009
Class B shares: 16,000

Kersti Strandqvist (1963)
Senior Vice President, Group Function Sustainability and Public Affairs
MSc Chem., Tech Lic.
Employed since: 1997
Class B shares: 14,147

Anna Sävinger Åslund (1969)
Senior Vice President, Group Function Human Resources
HR Management Degree
Employed since: 2001
Class B shares: 3,275

Volker Zöller (1967)
President, Consumer Goods
BSc BA
Employed since: 1994
Class B shares: 5,650

Information regarding individuals' own and related parties' shareholdings pertains to the situation on December 31, 2017.

Financial statements and notes

Contents

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

BS Balance sheet
IS Income statement
CF Cash flow statement
OCF Operating cash flow statement

Group notes, cont.

F. Group structure

pages 135–140

G. Other

pages 141–142

Contents, Parent Company notes

PC. Parent Company notes

pages 144–148

Contents, non-financial notes

H. Notes to non-financial information

pages 149–156

Consolidated income statement IS

Group	Note	2017 SEKm	2017 EURm[1)]	2016 SEKm	2016 EURm[1)]	2015 SEKm	2015 EURm[1)]
Net sales	B1	109,265	11,343	101,238	10,706	98,519	10,537
Cost of goods sold	B2	–76,899	–7,983	–72,438	–7,661	–71,898	–7,689
Items affecting comparability – cost of goods sold	B2	–509	–53	–532	–56	–267	–29
Gross profit		**31,857**	**3,307**	**28,268**	**2,989**	**26,354**	**2,819**
Sales, general and administration	B2	–19,130	–1,986	–16,965	–1,794	–16,216	–1,734
Items affecting comparability – sales, general and administration	B2	–346	–36	–2,113	–223	–25[2)]	–3[2)]
Share of profits of associates and joint ventures		169	18	157	17	198	21
Operating profit before amortization of acquisition-related intangible assets (EBITA)		**12,550**	**1,303**	**9,347**	**989**	**10,311**	**1,103**
Amortization of acquisition-related intangible assets	B2	–560	–58	–159	–17	–133	–14
Items affecting comparability – acquisition-related intangible assets	B2	–85	–9	–180	–19	–494	–53
Operating profit		**11,905**	**1,236**	**9,008**	**953**	**9,684[2)]**	**1,036[2)]**
Financial income	E7	158	16	202	21	312[3)]	33[3)]
Financial expenses	E7	–1,340	–139	–1,037	–109	–1,140	–121
Profit before tax		**10,723**	**1,113**	**8,173**	**865**	**8,856**	**948**
Tax	B4	–1,938	–201	–3,931	–416	–2,278	–244
Profit for the period		**8,785**	**912**	**4,242**	**449**	**6,578**	**704**
Earnings attributable to:							
Owners of the Parent		8,116	843	3,800	402	6,129	656
Non-controlling interests		669	69	442	47	449	48
Earnings per share – owners of the Parent							
Earnings per share before and after dilution effects		11.56	1.2	5.4[5)]	0.6[5)]	8.7[5)]	0.9[5)]
Dividend per share, SEK		5.75[4)]					
Profit for the period attributable to owners of the Parent		**8,116**	**843**	**3,800**	**402**	**6,129**	**656**
Average number of shares before dilution, million		702.3		702.3		702.3	
Average number of shares 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 9.63 (9.46; 9.35) was used.
2) Includes the sale of securities, SEK 970m, EUR 103.7m.
3) Excludes the sale of securities, SEK 970m, EUR 103.7m.
4) Board proposal.
5) 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).

Consolidated statement of comprehensive income

SEKm	2017	2016	2015
IS **Profit for the period**	**8,785**	**4,242**	**6,578**
Other comprehensive income for the period			
Items that cannot be transferred to profit for the period			
Actuarial gains and losses relating to defined benefit pension plans	1,061	–1,569	1,933
Income tax attributable to components in other comprehensive income	–218	421	–418
	843	**–1,148**	**1,515**
Items that have been or can be transferred to profit for the period			
Available-for-sale financial assets:			
Result from measurement at fair value recognized in equity	–	–1	318
Transferred to profit or loss upon sale	–	–	–970
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	35	275	–450
Transferred to profit or loss for the period	–56	274	342
Transferred to cost of hedged investments	10	–19	–
Translation differences in foreign operations	320	2,742	–1,944
Result from hedging of net investments in foreign operations	–1,968	–437	–58
Other comprehensive income from associates	–22	12	–17
Income tax attributable to components in other comprehensive income	439	–41	33
	–1,242	**2,805**	**–2,746**
Other comprehensive income for the period, net of tax	**–399**	**1,657**	**–1,231**
Total comprehensive income for the period	**8,386**	**5,899**	**5,347**
Total comprehensive income attributable to:			
Owners of the Parent	8,029	5,222	5,113
Non-controlling interests	357	677	234

By operating segment	Net sales			Adjusted EBITA[1)]		
SEKm	2017	2016	2015	2017	2016	2015
Personal Care	40,586	33,651	34,344	5,937	4,283	3,997
Consumer Tissue	42,014	41,560	41,657	4,084	4,450	3,846
Professional Hygiene	26,700	26,001	22,527	4,004	3,836	3,497
Other	–35	26	–9	–620	–577	–737
Total	**109,265**	**101,238**	**98,519**	**13,405**	**11,992**	**10,603**

1) Excluding items affecting comparability.

Consolidated statement of change in equity

Group	2017	2016	2015
Attributable to owner of the Parent			
Value, January 1	**33,204**	**42,986**	**39,675**
Total comprehensive income for the period	8,029	5,222	5,113
Transactions with shareholders (for further information, see Note G4 Transactions with related parties)	842	–14,679	–1,762
Private placement to non-controlling interests	504	240	–
Private placement to non-controlling interests, dilution	–290	–110	–
Issue expenses, private placement	–	–4	–
Acquisition of non-controlling interests	–	–799	–40
Acquisition of non-controlling interests, dilution	–	348	–
BS **Value, December 31**	**42,289**	**33,204**	**42,986**
Non-controlling interests			
Value, January 1	**6,376**	**5,289**	**5,250**
Total comprehensive income for the period	357	677	234
Dividend	–285	–190	–216
Private placement to non-controlling interests	465	199	–
Private placement to non-controlling interests, dilution	290	110	–
Issue expenses, private placement	–	–4	–
Acquisition of non-controlling interests	78	643	21
Acquisition of non-controlling interests, dilution	–	–348	–
BS **Value, December 31**	**7,281**	**6,376**	**5,289**
BS **Total equity, value December 31**	**49,570**	**39,580**	**48,275**

For further information, see Note E8 Equity on page 132.

Consolidated operating cash flow statement, supplementary disclosure OCF

		2017		2016		2015	
Group	**Note**	**SEKm**	**EURm[1)]**	**SEKm**	**EURm[1)]**	**SEKm**	**EURm[1)]**
IS Net sales		109,265	11,343	101,238	10,706	98,519	10,537
Operating expenses		–90,867	–9,433	–84,498	–8,936	–83,483	–8,929
Operating surplus		**18,398**	**1,910**	**16,740**	**1,770**	**15,036**	**1,608**
Adjustment for non-cash items		67	7	19	2	15	2
Operating cash surplus		**18,465**	**1,917**	**16,759**	**1,772**	**15,051**	**1,610**
Change in							
Inventories		–1,703	–177	1,059	112	–1,407	–150
Operating receivables		1,522	158	–298	–31	–1,029	–110
Operating liabilities		–559	–58	835	88	1,919	205
Change in working capital		**–740**	**–77**	**1,596**	**169**	**–517**	**–55**
Current capital expenditures		–3,911	–406	–4,222	–446	–3,293	–352
Restructuring costs, etc.		–1,091	–113	–1,102	–117	–801	–86
Operating cash flow		**12,723**	**1,321**	**13,031**	**1,378**	**10,440**	**1,117**
Financial items	E7	–1,182	–123	–835	–88	–828	–88
Paid tax	B4	–2,971	–308	–3,782	–400	–2,194	–235
Other		175	18	149	16	132	14
Cash flow from current operations		**8,745**	**908**	**8,563**	**906**	**7,550**	**808**
Strategic capital expenditures and divestments							
Company acquisitions	F6	–26,045	–2,704	–6,540	–692	–92	–10
Strategic capital expenditures in non-current assets		–2,101	–218	–2,033	–215	–2,179	–233
Total strategic capital expenditures		**–28,146**	**–2,922**	**–8,573**	**–907**	**–2,271**	**–243**
Divestments	F6	29	3	369	39	49	5
Cash flow from capital expenditures and divestments		**–28,117**	**–2,919**	**–8,204**	**–868**	**–2,222**	**–238**
Cash flow before transactions with shareholders		**–19,372**	**–2,011**	**359**	**38**	**5,328**	**570**
Private placement to non-controlling interests		28	3	435	46	–	–
Dividend to non-controlling interests		–285	–30	–190	–20	–216	–23
Transactions with shareholders		838	87	–14,571	–1,541	–2,225	–238
Net cash flow		**–18,791**	**–1,951**	**–13,967**	**–1,477**	**2,887**	**309**

Net debt	2017		2016		2015	
	SEKm	**EURm**	**SEKm**	**EURm**	**SEKm**	**EURm**
Net debt, January 1[2)]	–35,173	–3,680	**–19,058**	**–2,087**	**–25,066**	**–2,629**
Net cash flow[1)]	–18,791	–1,951	–13,967	–1,477	2,887	309
Remeasurements to equity[1)]	1,061	110	–1,570	–166	1,281	137
Exchange rate effects, etc.	436	189	–578	50	1,840	96
Net debt, December 31[2)]	**–52,467**	**–5,332**	**–35,173**	**–3,680**	**–19,058**	**–2,087**

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.63 (9.46; 9.35) was used.
2) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.84 (9.56; 9.13) was used for net debt.

Consolidated cash flow statement CF

Group	Note	2017 SEKm	2017 EURm[1]	2016 SEKm	2016 EURm[1]	2015 SEKm	2015 EURm[1]
Operating activities							
IS Profit before tax		10,723	1,113	8,173	864	8,856	947
T:1 Adjustment for non-cash items		5,717	594	6,791	718	4,635	496
		16,440	**1,707**	**14,964**	**1,582**	**13,491**	**1,443**
Paid tax	B4	–2,971	–308	–3,782	–400	–2,194	–235
Cash flow from operating activities before changes in working capital		**13,469**	**1,399**	**11,182**	**1,182**	**11,297**	**1,208**
Cash flow from changes in working capital							
Change in							
Inventories		–1,703	–177	1,059	112	–1,407	–150
Operating receivables		1,522	158	–298	–31	–1,029	–110
Operating liabilities		–559	–58	835	88	1,919	205
Cash flow from operating activities		**12,729**	**1,322**	**12,778**	**1,351**	**10,780**	**1,153**
Investing activities							
Company acquisitions	F6	–13,070	–1,357	–4,416	–467	–72	–8
Divestments	F6	29	3	369	39	49	5
T:2 Investments in intangible assets and property, plant and equipment		–6,160	–640	–6,339	–670	–5,679	–607
Sale of property, plant and equipment		152	16	83	9	207	22
Loans granted to external parties		–287	–30	–	–	–	–
Repayment of loans from external parties		–	–	184	19	186	20
Sale of securities		–	–	–	–	2,046	219
Cash flow from investing activities		**–19,336**	**–2,008**	**–10,119**	**–1,070**	**–3,263**	**–349**
Financing activities							
Private placement to non-controlling interests		28	3	435	46	–	–
Acquisition of non-controlling interests		–2	–	–	–	–11	–1
Change, receivable from Group companies		952	99	10,403	1,100	–382	–41
Loans raised		31,037	3,222	16,148	1,708	11,100	1,187
Amortization of debt		–25,982	–2,697	–15,614	–1,651	–14,657	–1,568
Dividend to non-controlling interests		–285	–30	–190	–20	–216	–23
Dividend		–	–	–	–	–	–
Transactions with shareholders		838	87	–14,571	–1,541	–2,225	–238
Cash flow from financing activities		**6,586**	**684**	**–3,389**	**–358**	**–6,391**	**–684**
Cash flow for the period		**–21**	**–2**	**–730**	**–77**	**1,126**	**120**
Cash and cash equivalents, January 1 [2]		4244	444	4,828	529	3,806	399
Exchange differences in cash and cash equivalents		–116	–25	146	–8	–104	10
Cash and cash equivalents, December 31 [2]	E2	**4,107**	**417**	**4,244**	**444**	**4,828**	**529**

[1] Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.63 (9.46; 9.35) was used.
[2] Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.84 (9.56; 9.13) was used.

For the Group's liquidity reserve, refer to the Risk and risk management section on page 71.

T:1 Adjustment for non-cash items

SEKm	2017	2016	2015
Depreciation/amortization and impairment of non-current assets	6,110	5,701	5,606
Gain on asset sales and swaps	8	51	22
Gain/loss on sale of securities	–	–	–970
Gain/loss on divestments	–17	–149	–
Unpaid relating to efficiency program	3	578	180
Payments relating to efficiency program already recognized	–435	–196	–274
Revaluation of previous share upon acquisition	–72	–	–
Provision for ongoing competition case	–	813	–
Provision for tax of a non-recurring nature relating to non-current assets	459	–	–
Reversal of provision for ongoing competition case	–248	–	–
Other	–91	–7	71
Total	**5,717**	**6,791**	**4,635**

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

SEKm	2017	2016	2015
Measures to raise the capacity level of operations (Strategic capital expenditures)	–2,101	–2,033	–2,179
Measures to uphold capacity level (Current capital expenditures)	–4,064	–4,306	-3,500
Investments through finance leases	5	–	–
Total	**–6,160**	**–6,339**	**–5,679**

Interest paid, SEKm	2017	2016	2015
Interest paid	–845	–879	–1,135
Interest, Group companies	–	106	130
Interest received	156	78	56
Total	**–689**	**–695**	**–949**

Change in liabilities attributable to financing activities

SEKm	Value at January 1	Cash flow	Acquisitions	Translation differences	Measurement at fair value	Reclass-ifications	Change in accrued interest	Value at December 31
Non-current financial liabilities	31,299	10,255	11,113	–513	–	–4,518	–	47,637
Provisions for pensions	5,273	–729	311	–1	–1,061	748	–	4,541
Current financial liabilities	5,574	–4,479	1,617	–101	–	4,518	72	7,201
Less: current financial liability to Group companies	–485	485	–	–	–	–	–	–
Assets for hedging financial liabilities included in cash flow from financing activities	–791	–477	–	–1	–	–	–	–1,269
Total financial liabilities attributable to financing activities excluding receivables from and liabilities to Group companies	**40,870**	**5,055**	**13,041**	**–616**	**–1,061**	**748**	**72**	**58,110**
Financial receivables from Group companies	–1,436	1,437	–	–1	–	–	–	–
Current financial liability to Group companies	485	–485	–	–	–	–	–	–
Net change in financial receivables from and liabilities to Group companies	**–951**	**952**	**–**	**–1**	**–**	**–**	**–**	**–**
Total financial liabilities attributable to financing activities including receivables from and liabilities to Group companies	**39,919**	**6,007**	**13,041**	**–617**	**–1,061**	**748**	**72**	**58,110**

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

Cash flow from operating activities

SEKm	2017	2016	2015
Cash flow from operating activities	12,729	12,778	10,780
Adjustment items			
Current capital expenditures	–3,911	–4,222	–3,293
Accrued interest	–73	8	63
Other	–	–1	–
Cash flow from current operations according to consolidated operating cash flow statement	**8,745**	**8,563**	**7,550**

Cash flow from investing activities

SEKm	2017	2016	2015
Cash flow from investing activities	–19,336	–10,119	–3,263
Adjustment items			
Current capital expenditures	3,911	4,222	3,293
Loans granted to external parties	287	–	–
Sale of securities	–	–	–2,046
Repayment of loans from external parties	–	–184	–186
Net debt in acquired and divested companies	–13,034	–2,124	–
Acquisition of non-controlling interests	–2	–	–11
Financial liability (earn-out payment) upon acquisition	–	–	–9
Investments through finance leases	–5	–	–
Settled financial debt pertaining to acquisitions in earlier years	62	–	–
Other	–	1	–
Cash flow from strategic capital expenditures and divestments according to the consolidated operating cash flow statement	**–28,117**	**–8,204**	**–2,222**

Cash flow for the period

SEKm	2017	2016	2015
Cash flow for the period	–21	–730	1,126
Adjustment items			
Amortization of debt	25,982	15,614	14,658
Loans raised	–31,037	–16,148	–11,100
Loans granted to external parties	287	–	–
Sale of securities	–	–	–2,046
Repayment of loans from external parties	–	–184	–186
Change, receivable from Group companies	–952	–10,403	382
Net debt in acquired and divested operations	–13,034	–2,124	–
Financial liability (earn-out payment) upon acquisition	–	–	–9
Investments through finance leases	–5	–	–
Settled financial debt pertaining to acquisitions in earlier years	62	–	–
Accrued interest	–73	8	63
Other	–	–	–1
Net cash flow according to consolidated operating cash flow statement	**–18,791**	**–13,967**	**2,887**

Consolidated balance sheet BS

Group	Note	2017 SEKm	2017 EURm[1]	2016 SEKm	2016 EURm[1]	2015 SEKm	2015 EURm[1]
Non-current assets							
Goodwill	D1	31,697	3,221	19,253	2,014	15,412	1,688
Other intangible assets	D1	21,424	2,177	7,665	802	7,351	805
Property, plant and equipment	D2	48,482	4,927	47,494	4,969	42,402	4,643
Participations in joint ventures and associates	F3	1,062	108	1,096	115	1,041	114
Shares and participations	F5	32	3	32	3	33	4
Surplus in funded pension plans	C5	1,148	117	335	35	35	4
Non-current receivables, Group companies	G4	–	–	–	–	39	4
Non-current financial receivables, Group companies	G4	–	–	3	0	3	0
Non-current financial assets	E2	552	56	714	75	728	80
Deferred tax assets	B4	2,232	227	1,457	153	1,056	116
Other non-current assets		469	48	241	25	149	16
Total non-current assets		**107,098**	**10,884**	**78,290**	**8,191**	**68,249**	**7,474**
Current assets							
Inventories	D3	13,739	1,396	10,944	1,145	11,229	1,230
Trade receivables	E3	17,607	1,789	15,843	1,658	14,808	1,622
Current tax assets	B4	769	78	740	77	868	95
Current receivables, Group companies	G4	–	–	57	6	166	18
Current financial receivables, Group companies	G4	–	–	1,433	150	12,207	1,337
Other current receivables	D4	2,549	259	2,333	244	2,100	230
Current financial assets	E2	1,105	112	244	26	776	85
Non-current assets held for sale	G1	42	4	156	16	120	13
Cash and cash equivalents	E2	4,107	417	4,244	444	4,828	529
Total current assets		**39,918**	**4,055**	**35,994**	**3,766**	**47,102**	**5,159**
Total assets		**147,016**	**14,939**	**114,284**	**11,957**	**115,351**	**12,633**
EQUITY AND LIABILITIES							
Equity	E8						
Owners of the Parent							
Share capital		2,350	239	0	0	0	0
Reserves		3,154	321	4,061	425	1,501	164
Retained earnings		36,785	3,739	29,143	3,049	41,485	4,544
		42,289	**4,299**	**33,204**	**3,474**	**42,986**	**4,708**
Non-controlling interests		7,281	740	6,376	667	5,289	579
Total equity		**49,570**	**5,039**	**39,580**	**4,141**	**48,275**	**5,287**
Non-current liabilities							
Non-current financial liabilities	E4	47,637	4,841	31,299	3,275	21,463	2,351
Non-current liabilities, Group companies	G4	–	–	48	5	–	–
Provisions for pensions	C5	4,541	462	5,273	552	2,919	320
Deferred tax liabilities	B4	7,090	721	3,872	405	3,756	411
Other non-current provisions	D6	1,481	151	1,407	147	886	97
Other non-current liabilities	D5	79	8	72	7	146	16
Total non-current liabilities		**60,828**	**6,183**	**41,971**	**4,391**	**29,170**	**3,195**
Current liabilities							
Current financial liabilities	E4	7,201	732	5,089	533	12,402	1,359
Current liabilities, Group companies	G4	–	–	259	27	341	37
Current financial liabilities, Group companies	G4	–	–	485	51	852	93
Trade payables		14,748	1,499	12,972	1,357	11,869	1,300
Current tax liabilities	B4	553	56	915	96	808	88
Current provisions	D6	1,547	157	1,409	147	889	97
Other current liabilities	D5	12,569	1,277	11,604	1,214	10,745	1,177
Total current liabilities		**36,618**	**3,721**	**32,733**	**3,425**	**37,906**	**4,151**
Total liabilities		**97,446**	**9,904**	**74,704**	**7,816**	**67,076**	**7,346**
Total equity and liabilities		**147,016**	**14,943**	**114,284**	**11,957**	**115,351**	**12,633**
Contingent liabilities and pledged assets, see Note G3 on page 142.							
Capital employed		102,037	10,370	74,753	7,821	67,333	7,374
Net debt		52,467	5,332	35,173	3,680	19,058	2,087

1) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.56 (9.13; 9.53) was used.

A. ACCOUNTING PRINCIPLES AND USE OF ALTERNATIVE PERFORMANCE MEASURES (APM)

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

READING INSTRUCTIONS

General accounting principles AP and new accounting rules are presented below. Other accounting principles considered material by Essity are presented in conjunction with the respective notes. The same principles are usually applied in both the Parent Company and the Group. In some cases, the Parent Company applies principles other than those used by the Group and, in such cases, these principles are specified under the respective note in the section about the Parent Company.

Key assessments and assumptions KAA are presented under the respective notes; see application of assessments on page 102.

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

BS Balance sheet
IS Income statement
CF Cash flow statement
OCF Operating cash flow statement
Tx:x Reference to table in note

BASIS FOR PREPARATION

Essity's financial statements are prepared in accordance with the Annual Accounts Act and International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), as adopted within the EU, and the Swedish Financial Reporting Board, Recommendation RFR 1 Supplementary Accounting Rules for Groups. The Parent Company's financial statements are prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2, Reporting by Legal Entities, and the Annual Accounts Act. The accounts for both the Group and the Parent Company relate to the fiscal year that ended on December 31, 2017. Essity applies the historical cost method for measurement of assets and liabilities except for available-for-sale financial assets and financial assets and liabilities, including derivative instruments, measured at fair value through profit or loss, which are measured at fair value either through profit or loss or other comprehensive income.

New presentation format for the income statement

Essity has modified the presentation format for the income statement and the 2016 and 2015 comparative years have been restated. According to the table below, amortization of acquisition-related intangible assets has been separated from "Cost of goods sold" and "Sales, general and administration" and recognized below on a new line, "Operating profit before amortization of acquisition-related intangible assets (EBITA)". In a corresponding manner, depreciation/amortization and impairment of acquisition-related intangible assets included in items affecting comparability has been recognized separately. The reason for the reclassification is to clarify earnings before the effects of amortization of acquisition-related intangible assets.

New or amended accounting standards 2017

In this Annual Report, the Group and Parent Company apply the new and amended standards that came into effect from January 1, 2017.

IAS 7 Statement of Cash Flows (amendment)

IAS 7 has been amended and entails expanded disclosure requirements relating to changes arising from financing activities. The Group provides information in the section concerning the Group's cash flow statement on page 99.

IAS 12 Income Taxes (amendment)

The amendment clarifies the recognition of deferred tax assets for holdings of debt instruments measured at fair value.

The above amendments did not have any material impact on the Group's or Parent Company's results or financial position.

New or amended accounting standards after 2017

A number of new and amended IFRS have not yet come into effect and have not been applied in advance in preparing the Group's and the Parent Company's financial statements. The IFRS that may affect the financial statements of the Group or the Parent Company are described below. Other new or amended standards or interpretations published by IASB are not expected to have any impact on the Group's or the Parent Company's financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and is a new standard that replaces IAS 39. The standard is divided into three areas: classification and measurement of financial assets and liabilities, impairment and hedging.

The company's business model for managing the asset and the nature of the asset's contractual cash flows comprise the basis for classification and measurement, in which the financial assets are classified in one of the following three categories: 1) financial assets measured at amortized cost 2) financial assets measured at fair value through other comprehensive income and 3) financial assets measured at fair value through profit or loss. The new standard entails essentially unchanged recognition of financial liabilities.

The standard introduces a new model for impairment of financial assets based on expected losses and not as previously under IAS 39 until the loss event has already occurred. Under the model, provisions are established for credit losses that may arise within the next 12 months for assets with low credit risk. In other cases where the credit risk has increased significantly since initial recognition and where the credit risk is not low, provisions are established for credit losses that are expected to occur during the full lifetime of the asset.

New presentation format, income statement

SEKm	Recognition as per 2016 Annual Report 2016	Change	Recognition as per 2017 Annual Report 2016	Recognition as per 2016 Annual Report 2015	Change	Recognition as per 2017 Annual Report 2015
Net sales	101,238		101,238	98,519		98,519
Cost of goods sold	–72,476	38	–72,438	–71,960	62	–71,898
Items affecting comparability	–532	0	–532	–267	0	–267
Gross profit	**28,230**	**38**	**28,268**	**26,292**	**62**	**26,354**
Sales, general and administration	–17,086	121	–16,965	–16,287	71	–16,216
Items affecting comparability	–2,293	180	–2,113	–519	494	–25
Share of profits of associates and joint ventures	157	0	157	198	0	198
Operating profit before amortization of acquisition-related intangible assets (EBITA)		**339**	**9,347**		**627**	**10,311**
Amortization of acquisition-related intangible assets		–159	–159		–133	–133
Items affecting comparability		–180	–180		–494	–494
Operating profit	**9,008**	**0**	**9,008**	**9,684**	**0**	**9,684**

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

A simplified model has been developed for trade receivables and lease receivables, whereby anticipated losses are recognized over the estimated remaining term of the receivable. Upon review of the Group's financial assets, it was concluded that the effects primarily relate to expected losses on trade receivables. In the first quarter of 2018, Essity intends to report a non-recurring effect of SEK 7m in equity due to a changed calculation model for expected credit losses on trade receivables.

The new standard focuses to a great extent on reflecting an entity's risk management strategies in hedge accounting and allowing more hedging strategies to qualify for hedge accounting.

Essity has evaluated the new rules for hedge accounting and has concluded that these may provide Essity with greater scope to apply hedge accounting.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers establishes a new regulatory framework for the manner in which a company should recognize revenue. The new standard will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC (International Financial Reporting Interpretations Committee) 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC (Standing Interpretation Committee of the IASC, predecessor to the IFRIC) 31 Revenue – Barter Transactions Involving Advertising Services. The standard will apply from January 1, 2018. During the year, IFRS 15 Clarification was issued, providing further guidance on when goods or services are to be recognized separately or jointly with other goods and services.

The standard regulates commercial agreements (contracts) with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently. In certain cases, the good/service can be integrated with other obligations in the contract, whereby a package of goods/services comprises a joint obligation. The standard establishes rules for calculating the transaction price for delivery of goods and services and the manner in which this can be allocated among the various performance obligations. Revenue is recognized when control has passed to the customer by the customer being able to use or benefit from the good/service, at which point it is deemed to have been transferred. Control may be passed at a given point in time, which is usually the case for sales. In other cases, a performance obligation may be satisfied over time, which is common for services. Three different criteria have been established for determining whether a performance obligation is satisfied over time. Either the customer receives and consumes all of the benefits as the obligation is performed; the company's performance enhances an asset that the customer controls; or the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for performance completed to date. IFRS 15 aims to create more comparable and transparent financial reporting, which will be achieved by separating customer contracts as specified above and by providing significantly expanded disclosure regarding how and when revenue is generated. Disclosures encompass both quantitative and qualitative information to help the users of financial statements to understand the company's business. Disclosures include information regarding contracts with customers, separation of revenue into geographical regions, categories or similar with reconciliation against the recognized segment, information regarding balance sheet items and information concerning significant assessments.

In 2016, Essity initiated a project to evaluate the consequences of implementing IFRS 15. Via a questionnaire, the project group identified the various types of contracts that exist within Essity and provided training to various parts of the Group in what is entailed by the transition to IFRS 15.

The conclusion can be drawn that Essity's sales mainly comprise sales of products and, to a limited extent, services, but to ensure separate accounting of sales and services, separate accounts have been created for this.

The new reporting standard has transitioned from a risk and reward concept to focusing more on when control has been transferred to the customer. The project group has created awareness regarding and controls for avoiding material deviations between the point in time for revenue recognition and the point in time when control of the sold goods has been transferred to the buyer. Based on the above, this means that the new standard did not have any material impact on Essity's revenue recognition.

IFRS 16 Leases

In January 2016, the IASB published a new leases standard that will replace IAS 17 Leases and associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that all assets and liabilities attributable to all leases with a few exceptions, are recognized in the balance sheet. This type of recognition is based on the approach that the lessee is entitled to use an asset over a specific period and simultaneously has an obligation to pay for this entitlement. The only exceptions are leases with a term of less than 12 months or assets with a low value, such as leases of computers and office furniture. Recognition for the lessor will remain unchanged. The standard is applicable to fiscal years beginning on January 1, 2019 or later. Prospective application is permitted. Essity has formed a project team that will prepare the Group to adapt its reporting to the new standard. The project team is currently identifying the leases within the Group and assessing which measures are necessary to adapt its reporting to the new standard. The cost of operational leases for the fiscal year 2017 amounted to SEK 776m. As of December 31, 2017, the undiscounted amount relating to payment commitments for operational lease agreements totaled approximately SEK 2,500m. However, the application of IFRS 16 would entail that a lower amount would be recognized as a liability and asset given that components of the lease agreements may refer to service and, moreover, the future payment commitments are also to be discounted. For more information about the company's lease commitments, including the maturity structure, refer to Note G2 Leases on page 141.

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 asset and liability items and income and expense items, respectively, as well as other information disclosed.

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

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

Goodwill, D1 Intangible assets, page 122
Pensions, C5 Remuneration after employment, page 119
Taxes, B4 Income taxes, page 115
Provisions, D6 Other provisions, page 125

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

PRINCIPLES OF CONSOLIDATION

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

Parent Company

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

Subsidiaries

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

Joint arrangements

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

Associates

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint arrangement. Normally, this means that the Group owns between 20% and 50% of the votes. Accounting for associates is carried out according to the equity method and they are initially measured at cost.

For further information, see Note F3 Joint ventures and associates on page 136.

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 on net assets are recognized as translation differences in other comprehensive income, which is a component of equity (translation reserve).

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

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

TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCY

Transactions in foreign currency are translated to a functional currency using the rate prevailing on the transaction date. At the balance sheet date, monetary assets and liabilities 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 borrowings and financial investments are recognized as other financial items. Non-monetary assets and liabilities recognized at historical cost are translated at the exchange rate prevailing on the transaction date.

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

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

REVENUE RECOGNITION

Sales revenue, which is synonymous with net sales, refers to the fair value of consideration received or receivable for goods and services sold within Essity's ordinary activities. Revenue is recognized when delivery to the customer has taken place according to the terms of the sale. Other revenue includes compensation for sales that are not included in Essity's ordinary activities and includes rental revenue, which is recognized in the period covered by the rental contract, royalties and similar items, which are recognized in accordance with the implied financial effect of the contract. Interest income is recognized in accordance with the effective interest method. Dividends received are recognized when the right to receive a dividend has been established.

GOVERNMENT GRANTS

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

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

Guidelines concerning non-IFRS performance measures for companies with securities listed on a regulated market in the EU have been issued by the ESMA (The European Securities and Markets Authority). These guidelines are to be applied to alternative performance measures (APM) applied as of July 3, 2016.

The Annual Report refers to a number non-IFRS performance measures used to assist investors and company management in analyzing the company's operations. A description of the various non-IFRS performance measures used as a complement to the financial information reported according to IFRS is presented below.

A number of financial performance measures and how these are used to analyze the company's objective are described below.

CALCULATION OF PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

RETURN MEASURES	Return is a financial term that describes how must 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.

SEKm	2017	2016	2015
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE			
EBITA	12,550	9,347	10,311
Items affecting comparability	855	2,645	292
Adjusted EBITA	13,405	11,992	10,603
Average capital employed	90,167	73,145	70,115
Adjusted return on capital employed, ROCE	**14.9%**	**16.4%**	**15.1%**

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 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.
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. Deferred tax liability in untaxed reserves has been calculated at a 22.0% rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden.	Equity is the difference between the Group's assets and liabilities, which corresponds to the Group's equity contributed by owners and the Group's accumulated profits.
Equity per share	Equity in relation to the average number of shares outstanding that exist in Essity Aktiebolag (publ).	A measure of the amount of equity that exists per share and is used for measuring the share against the share price.
Equity/assets ratio	Equity expressed as a percentage of total assets.	A traditional measure for showing financial risk, expressing the percentage of total assets that is financed by the owners.
Capital employed	The Group's and business areas' capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.	This measure shows the amount of total capital that is used in the operations and is thus one of the components for measuring the return from operations.

SEKm	2017	2016	2015
CAPITAL EMPLOYED			
Total assets	147,016	114,284	115,351
Financial assets	–6,912	–6,973	–18,577
Non-current, non-interest-bearing liabilities	–8,650	–5,399	–4,788
Current, non-interest-bearing liabilities	–29,417	–27,159	–24,653
Capital employed	**102,037**	**74,753**	**67,333**
CAPITAL EMPLOYED			
Personal Care	39,447	13,665	13,149
Consumer Tissue	43,569	40,082	40,903
Professional Hygiene	20,034	21,253	14,151
Other	–1,013	–247	–870
Capital employed	**102,037**	**74,753**	**67,333**

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

SEKm	2017	2016	2015
WORKING CAPITAL			
Inventories	13,739	10,944	11,229
Trade receivables	17,607	15,843	14,808
Other current receivables	2,549	2,390	2,266
Trade payables	–14,748	–12,972	–11,869
Other current liabilities	–12,569	–11,863	–11,086
Other	–677	–199	–183
Working capital	**5,901**	**4,143**	**5,165**

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 and capital investment shares.	Net debt is the most relevant measure for showing the company's total debt financing.

SEKm	2017	2016	2015
NET DEBT			
Surplus in funded pension plans	1,148	335	35
Non-current financial assets	552	717	731
Current financial assets	1,105	1,677	12,983
Cash and cash equivalents	4,107	4,244	4,828
Financial assets	**6,912**	**6,973**	**18,577**
Non-current financial liabilities	47,637	31,299	21,463
Provisions for pensions	4,541	5,273	2,919
Current financial liabilities	7,201	5,574	13,253
Financial liabilities	**59,379**	**42,146**	**37,635**
Net debt	**52,467**	**35,173**	**19,058**

Non-IFRS performance measure	Description	Reason for use of the measure
Debt/equity ratio	Expressed as net debt in relation to equity.	Helps show financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.
Debt payment capacity	Expressed as cash surplus in relation to closing net debt.	A financial measure that shows the company's capacity to repay its debt.
Interest coverage ratio	Calculated according to the net method where operating profit is divided by financial items.	This ratio indicates a company's ability to cover its interest expenses.

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

SEKm	2017	2016	2015
ORGANIC SALES			
Personal Care			
Organic sales	586	865	2,282
Exchange rate effects	48	–1,313	1,015
Acquisitions/Divestments	6,301	–245	–18
Recognized change	**6,935**	**–693**	**3,279**
Consumer Tissue			
Organic sales	231	1,110	2,183
Exchange rate effects	223	–1,207	2,423
Acquisitions/Divestments	0	0	0
Recognized change	**454**	**–97**	**4,606**
Professional Hygiene			
Organic sales	411	708	405
Exchange rate effects	137	–168	2,179
Acquisitions/Divestments	150	2,934	0
Recognized change	**698**	**3,474**	**2,584**
Group			
Organic sales	1,169	2,718	4,923
Exchange rate effects	406	–2,688	5,617
Acquisitions/Divestments	6,452	2,689	–18
Recognized change	**8,027**	**2,719**	**10,522**

ORGANIC SALES, %	2017	2016	2015
Previous period sales	101,238	98,519	87,997
Organic sales growth	1,169	2,718	4,923
Total organic sales for the period	102,407	101,237	92,920
Organic sales, %	**1%**	**3%**	**6%**

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.	Adjusted gross profit is stripped of items affecting comparability and is thus a better measure than gross profit for showing the company's earnings before the effect of costs such as selling and administrative costs.
Operating surplus margin	Operating surplus as a percentage of net sales for the year.	This measure is a complement to operating margin, as it shows the cash surplus in relation to net sales.
Operating profit before amortization of acquisition-related intangible assets/EBITA	Calculated as operating profit after depreciation of tangible 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 of tangible assets but before amortization of acquisition-related intangible assets, excluding items affecting comparability.	The measure is a good complement to enable earnings comparisons with other companies, regardless of whether business activities were based on acquisitions or organic growth, and even adjusted for the impact of items affecting comparability.

SEKm	2017	2016	2015
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA			
Operating profit	11,905	9,008	9,684
Amortization of acquisition-related intangible assets	560	159	133
Items affecting comparability, amortization of acquisition-related intangible assets	85	180	494
Operating profit before amortization of acquisition-related intangible assets/EBITA	12,550	9,347	10,311
EBITA margin	11.5%	9.2%	10.5%
Items affecting comparability, cost of goods sold	509	532	267
Items affecting comparability, sales, general and administration	346	2,113	25
Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA	**13,405**	**11,992**	**10,603**
Adjusted EBITA margin	12.3%	11.8%	10.8%

Items affecting comparability	Under items affecting comparability, Essity includes costs in connection with acquisitions, restructuring, impairment and other specific events.	Separate reporting of items affecting comparability between periods provides a better understanding of the company's operating activities.
Restructuring costs	Costs for impairment together with personnel costs in connection with restructuring.	This measure shows the specific costs that have arisen in connection with restructuring of a specific operation, which contributes to a better understanding of the underlying cost level in the continuing operations.
Adjusted gross margin	Relates to adjusted gross profit as a percentage of net sales for the period.	Adjusted gross margin is stripped of items affecting comparability and is thus a better measure than gross margin for showing the company's margins before the effect of costs such as selling and administrative costs.
EBITA margin	Operating profit before amortization of acquisition-related intangible assets as a percentage of net sales for the period.	The measure is a good complement to enable margin comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth.
Adjusted EBITA margin	Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability, as a percentage of net sales for the year.	The measure is a good complement to enable margin comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth.
Operating margin	Operating profit as a percentage of net sales for the year.	The operating margin is a key measure together with sales growth and capital turnover ratio for monitoring value creation.
Adjusted operating margin	Operating profit, excluding items affecting comparability, as a percentage of net sales for the year.	Adjusted operating margin is key measure together with sales growth and capital turnover ratio for monitoring value creation.
Adjusted operating profit	Calculated as operating profit before financial items and tax, excluding items affecting comparability.	Adjusted operating profit is a key ratio for control of the Group's profit centers and provides a better understanding of earnings performance of the operations than the non-adjusted operating profit.

SEKm	2017	2016	2015
ADJUSTED OPERATING PROFIT			
Operating profit	11,905	9,008	9,684
Items affecting comparability	940	2,825	786
Adjusted operating profit	**12,845**	**11,833**	**10,470**
Adjusted operating margin	11.8%	11.7%	10.6%

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, but not affected by taxes and items that affect comparability with previous periods.

Non-IFRS performance measure	Description	Reason for use of the measure
Adjusted tax	Tax expenses for the period adjusted for tax expenses relating to items affecting comparability.	A useful measure to show the total tax expense for the period, adjusted for taxes related to items affecting comparability.

SEKm	2017	2016	2015
ADJUSTED TAX			
Tax	–1,938	–3,931	–2,278
Tax relating to items affecting comparability	–253	–424	–467
Adjusted tax	**–2,191**	**–4,355**	**–2,745**

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 earnings capacity.
Net margin	Profit for the period as a percentage of net sales for the year.	The net margin shows the remaining share of net sales after all of the company's costs, including income tax, have been deducted.
Earnings per share	Profit for the period attributable to owners of the Parent divided by the number of shares outstanding.	Earnings per share is a good measure of the company's profitability and is used to determine the value of a company's outstanding shares
Adjusted earnings per share	Adjusted earnings for the period attributable to owners of the Parent, excluding amortization of acquisition-related intangible assets after tax divided by number of shares.	Adjusted earnings per share is a good measure of the company's profitability and is used to determine the value of a company's outstanding shares.

CASH FLOW PERFORMANCE MEASURES	**Various performance measures and costs that have impacted the company's cash flow**	
Non-IFRS performance measure	**Description**	**Reason for use of the measure**
Operating cash surplus	Calculated as operating profit with a reversal of depreciation, amortization and impairment of tangible and intangible assets Share of profits of associates and joint ventures, items affecting comparability and capital gains/losses are excluded.	This measure shows the cash flow generated by profit and is part of the follow-up of cash flow.
Operating cash flow	Consists of the sum of operating cash surplus and change in working capital, with deductions for current capital expenditures in non-current assets and restructuring costs.	This is an important control measure used internally within the organization that shows the combined cash flow from operating activities including all parts that the units have control over themselves.

SEKm	2017	2016	2015
OPERATING CASH FLOW			
Personal Care			
Operating cash surplus	7,238	5,314	5,018
Change in working capital	–237	289	–314
Current capital expenditures	–1,282	–805	–840
Restructuring costs, etc.	–266	–75	–72
Operating cash flow	**5,453**	**4,723**	**3,792**
Consumer Tissue			
Operating cash surplus	6,163	6,455	5,845
Change in working capital	–425	891	–130
Current capital expenditures	–1,749	–1,892	–1,437
Restructuring costs, etc.	–139	–255	–174
Operating cash flow	**3,850**	**5,199**	**4,104**
Professional Hygiene			
Operating cash surplus	5,649	5,515	4,858
Change in working capital	73	–30	–155
Current capital expenditures	–719	–1,267	–823
Restructuring costs, etc.	–592	–83	–317
Operating cash flow	**4,411**	**4,135**	**3,563**

Non-IFRS performance measure	Description	Reason for use of the measure
Cash flow from current operations	Operating cash flow less net financial items and tax payments and taking into account other financial cash flow.	This measure illustrates the cash flow generated by operations and that can potentially be used for strategic initiatives such as strategic capital expenditures or acquisitions.
Strategic capital expenditures in non-current assets	Strategic capital expenditures increase the company's future cash flow through capital expenditures to expand facilities, or new technologies that boost competitiveness.	Shows that size of the capital expenditures that are made in expansion and other growth measures.
Current capital expenditures	Investments to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature.	Shows the size of the capital expenditures required to maintain existing manufacturing capacity.

B. SALES AND EARNINGS

B1. SEGMENT REPORTING

AP ACCOUNTING PRINCIPLES

Operating segments are recognized in a manner that complies with the internal reporting submitted to the chief operating decision maker. The chief operating decision maker is the function that is responsible for allocating resources and assessing the result of the operating segments. At Essity, this function has been identified as the company's President, who is responsible for and manages the day-to-day administration of the Group in accordance with the Board's guidelines and terms of reference. One Executive Vice President and the Executive Management Team support him in his work. Essity's three business areas, Personal Care, Consumer Tissue and Professional Hygiene, comprise the operating segments. For management purposes, the Group is organized into business areas based on their products. Personal Care's offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Products are sold under brands including Jobst, Leukoplast, Libero, Libresse, Nosotras, Saba and the globally leading brand TENA, and as retailers' brands. Distribution channels for the products are the retail trade, online sales, pharmacies and care institutions. Consumer Tissue's offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Products are sold under brands including Edet, Lotus, Regio, Tempo, Vinda and Zewa, and as retailers' brands. Distribution channels for the products are the retail trade and online sales.

Professional Hygiene's offering, with the globally leading brand Tork, comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, IoT sensor technology as well as service and maintenance. Professional hygiene customers consist of companies and office buildings, universities, healthcare facilities, industries, restaurants, hotels, stadiums and other public venues. Distribution channels for the products consist of distributors and online sales.

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 Hygiene Category, Global Hygiene Supply Tissue and Global Hygiene Supply Personal Care). The business units have limited responsibility to impact operational costs, since the global units are responsible for production, planning, technology development, purchasing and product development. Accordingly, the business unit manager's main tasks are to address the markets from a sales perspective.

No business segments were aggregated to form the aforementioned segments.

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

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

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2017 fiscal year						
REVENUES						
IS TB1:2 **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**
TB1:1 Items affecting comparability	–457	135	–160	–458	–	–940
IS **Operating profit/loss**	**4,974**	**4,213**	**3,796**	**–1,078**	–	**11,905**
IS Financial income						158
IS Financial expenses						–1,340
IS Tax expense for the period						–1,938
IS **Profit for the period**						**8,785**
OTHER DISCLOSURES						
Assets	54,468	58,200	28,076	3,706	–5,407	139,043
BS Participations in joint ventures and associates	273	589	174	26	–	1,062
Unallocated financial assets	–	–	–	6,911	–	6,911
BS **Total assets**	**54,741**	**58,789**	**28,250**	**10,643**	**–5,407**	**147,016**
Investments/acquisitions	–28,156	–2,974	–894	–185	–	–32,209
Depreciation/amortization	–1,815	–2,134	–1,669	–106	–	–5,724
Expenses, in addition to depreciation/amortization, not matched by payments	48	21	67	–69	–	67

B1. SEGMENT REPORTING, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2016 fiscal year						
REVENUES						
IS TB1:2 **Net sales**	33,651	41,560	26,001	26	–	101,238
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**4,283**	**4,450**	**3,836**	**–577**	**–**	**11,992**
Amortization of acquisition-related intangible assets	–28	–68	–63	–	–	–159
Adjusted operating profit/loss per operating segment	**4,255**	**4,382**	**3,773**	**–577**	**–**	**11,833**
TB1:1 Items affecting comparability	–1,011	–944	–871	1	–	–2,825
IS **Operating profit/loss**	**3,244**	**3,438**	**2,902**	**–576**	**–**	**9,008**
IS Financial income						202
IS Financial expenses						–1,037
IS Tax expense for the period						–3,931
IS **Profit for the period**						**4,242**
OTHER DISCLOSURES						
Assets	22,483	55,180	29,905	3,305	–4,658	106,215
BS Participations in joint ventures and associates	346	599	196	–45	–	1,096
Unallocated financial assets				6,973		6,973
BS **Total assets**	**22,829**	**55,779**	**30,101**	**10,233**	**–4,658**	**114,284**
Investments/acquisitions	–2,207	–2,420	–7,989	–313	–	–12,929
Depreciation/amortization	–1,077	–2,040	–1,702	–87	–	–4,906
Expenses, in addition to depreciation/amortization, not matched by payments	8	32	17	–38	–	19

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2015 fiscal year						
REVENUES						
IS TB1:2 **Net sales**	**34,344**	**41,657**	**22,527**	**–9**	**–**	**98,519**
RESULT						
Adjusted operating profit/loss before amortization of acquisition-related intangible assets	**3,997**	**3,846**	**3,497**	**–737**	**–**	**10,603**
Amortization of acquisition-related intangible assets	–7	–73	–53	–	–	–133
Adjusted operating profit/loss per operating segment	**3,990**	**3,773**	**3,444**	**–737**	**–**	**10,470**
TB1:1 Items affecting comparability	–614	–458	–160	446	–	–786
IS **Operating profit/loss**	**3,376**	**3,315**	**3,284**	**–291**	**–**	**9,684**
IS Financial income						312
IS Financial expenses						–1,140
IS Tax expense for the period						–2,278
IS **Profit for the period**						**6,578**
OTHER DISCLOSURES						
Assets	20,874	55,007	20,844	3,631	–4,624	95,732
BS Participations in joint ventures and associates	301	545	182	13	–	1,041
Unallocated financial assets				18,578		18,578
BS **Total assets**	**21,175**	**55,552**	**21,026**	**22,222**	**–4,624**	**115,351**
Investments/acquisitions	–1,810	–2,618	–1,077	–247	–	–5,752
Depreciation/amortization	–1,117	–2,037	–1,389	–87	–	–4,630
Expenses, in addition to depreciation/amortization, not matched by payments	6	18	6	–15	–	15

B1. SEGMENT REPORTING, CONT.

TB1:1 Items affecting comparability allocated by segment

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other	Total
2017 fiscal year					
Items affecting comparability – cost of goods sold	–272	81	–318	–	–509
Items affecting comparability – sales, general and administration	–102	54	160	–458	–346
Items affecting comparability – acquisition-related intangible assets	–83	–	–2	–	–85
Total	**–457**	**135**	**–160**	**–458**	**–940**
2016 fiscal year					
Items affecting comparability – cost of goods sold	–109	–239	–186	2	–532
Items affecting comparability – sales, general and administration	–836	–705	–570	–2	–2,113
Items affecting comparability – acquisition-related intangible assets	–66	–	–115	1	–180
Total	**–1,011**	**–944**	**–871**	**1**	**–2,825**
2015 fiscal year					
Items affecting comparability – cost of goods sold	–9	–256	3	–5	–267
Items affecting comparability – sales, general and administration	–138	–175	–163	451	–25
Items affecting comparability – acquisition-related intangible assets	–467	–27	–	–	–494
Total	**–614**	**–458**	**–160**	**446**	**–786**

Operating segments: Essity is a leading global hygiene and health company that improves people's well-being through our products and solutions in the Personal Care, Consumer Tissue and Professional Hygiene business areas. Personal Care's offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Consumer Tissue's offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Professional Hygiene's offering comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, IoT sensor technology as well as service and maintenance. Other operations comprise Group-wide functions and non-allocated tax.

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.

Intra-Group deliveries: Revenues, expenses and results for the various operating segments were affected by intra-Group deliveries. Internal prices are market-based. Intra-Group deliveries are eliminated when preparing the consolidated financial statements.

Customers: Essity had no customers in 2017, 2016 or 2015 from which it generated income that accounts for more than 10% of the company's net sales. Essity's ten largest customers account for 22.9% (26.6; 26.4) of the company's sales.

B1b. SEGMENT REPORTING, CONT.

	Net sales – sold to[1]						Net sales – sold by[1]					
	2017		2016		2015		2017		2016		2015	
TB1:2 Group by country	**SEKm**	**%**	**SEKm**	**%**	**SEKm**	**%**	**SEKm**	**%**	**SEKm**	**%**	**SEKm**	**%**
Sweden	**2,518**	**2**	**2,501**	**2**	**2,422**	**2**	**2,908**	**3**	**2,742**	**3**	**2,700**	**3**
EU excl. Sweden												
Germany	11,400	11	9,927	10	9,575	10	11,956	11	10,446	10	10,024	10
France	9,510	9	9,079	9	9,071	9	9,721	9	9,212	9	9,161	9
UK	7,832	7	8,267	8	9,029	9	7,865	7	8,276	8	9,043	9
Spain	5,665	5	5,489	5	5,450	6	5,748	5	5,622	6	5,746	6
Netherlands	3,286	3	2,965	3	2,904	3	3,503	3	3,235	3	3,161	3
Italy	3,236	3	2,913	3	2,871	3	3,636	3	3,224	3	3,226	3
Austria	1,713	2	1,563	2	1,498	2	1,802	2	1,679	2	1,646	2
Belgium	1,467	1	1,433	1	1,435	1	1,560	1	1,521	2	1,515	2
Finland	1,435	1	1,430	1	1,437	1	1,456	1	1,467	1	1,475	1
Denmark	995	1	930	1	957	1	967	1	953	1	976	1
Hungary	916	1	795	1	771	1	943	1	850	1	710	1
Poland	792	1	727	1	690	1	820	1	694	1	727	1
Greece	583	1	573	1	587	1	344	0	384	0	415	0
Czech Republic	570	1	534	1	505	1	546	0	503	0	482	0
Ireland	441	0	422	0	402	0	387	0	387	0	375	0
Portugal	358	0	360	0	441	0	299	0	257	0	240	0
Romania	313	0	265	0	219	0	309	0	272	0	239	0
Croatia	273	0	274	0	233	0	–	–	–	–	–	–
Slovakia	272	0	242	0	245	0	427	0	388	0	370	0
Lithuania	187	0	182	0	174	0	187	0	182	0	173	0
Rest of EU excl. Sweden	700	1	673	1	656	1	293	0	307	0	280	0
Total EU excl. Sweden	**51,944**	**48**	**49,043**	**48**	**49,150**	**50**	**52,769**	**48**	**49,859**	**49**	**49,984**	**51**
Rest of Europe												
Russia	3,209	3	2,879	3	3,024	3	3,443	3	3,061	3	3,178	3
Switzerland	1,299	1	1,231	1	1,219	1	1,252	1	1,195	1	1,200	1
Norway	1,184	1	1,111	1	1,131	1	1,144	1	1,117	1	1,130	1
Turkey	595	1	486	0	690	1	663	1	537	1	789	1
Ukraine	288	0	291	0	300	0	255	0	264	0	280	0
Rest of Europe, excl. EU	356	0	297	0	276	0	–	–	–	–	–	–
Total, Rest of Europe	**6,931**	**6**	**6,295**	**6**	**6,640**	**7**	**6,757**	**6**	**6,174**	**6**	**6,577**	**7**
TOTAL EUROPE	**61,393**	**56**	**57,839**	**57**	**58,212**	**59**	**62,434**	**57**	**58,775**	**58**	**59,261**	**60**
North America												
US	14,422	13	13,115	13	10,208	10	14,449	13	13,324	13	10,228	10
Canada	1,933	2	1,676	2	1,477	1	1,958	2	1,525	2	1,505	2
Rest of North America	5	0	4	0	4	0	–	–	–	–	–	–
TOTAL NORTH AMERICA	**16,360**	**15**	**14,795**	**15**	**11,689**	**12**	**16,407**	**15**	**14,849**	**15**	**11,733**	**12**
Latin America												
Mexico	4,223	4	4,015	4	4,113	4	4,736	4	4,509	4	4,680	5
Colombia	3,765	4	3,433	3	3,505	4	4,352	4	3,978	4	3,960	4
Ecuador	1,332	1	1,291	1	1,400	1	1,315	1	1,291	1	1,400	1
Chile	1,105	1	1,022	1	1,078	1	1,096	1	1,015	1	1,072	1
Brazil	658	1	460	0	563	1	658	1	460	0	561	1
Costa Rica	476	0	495	0	518	1	479	0	499	0	523	1
Argentina	410	0	345	0	429	0	417	0	372	0	452	0
Dominican Republic	265	0	255	0	216	0	109	0	121	0	114	0
Peru	241	0	252	0	219	0	16	0	12	0	7	0
Nicaragua	170	0	159	0	174	0	–	–	0	0	–	–
Rest of Latin America	771	1	704	1	722	1	105	0	94	–	98	–
TOTAL LATIN AMERICA	**13,416**	**12**	**12,431**	**12**	**12,937**	**13**	**13,283**	**12**	**12,351**	**12**	**12,867**	**13**
Asia												
China	10,982	10	10,089	10	9,277	9	10,843	10	11,272	11	10,456	11
Malaysia	1,326	1	1,292	1	1,337	1	1,631	1	1,679	2	1,701	2
Hong Kong	1,104	1	1,109	1	1,055	1	1,358	1	–	–	–	–
Japan	757	1	653	1	543	1	653	1	574	1	498	1
Taiwan	352	1	333	0	323	0	362	0	378	0	333	0
Singapore	216	0	206	0	240	0	185	0	183	0	186	0
India	182	0	163	0	109	0	180	0	163	0	108	0
Rest of Asia	1,292	1	1,011	1	1,060	1	533	0	272	0	290	0
TOTAL ASIA	**16,211**	**15**	**14,856**	**15**	**13,944**	**14**	**15,745**	**15**	**14,521**	**14**	**13,572**	**14**
Rest of the world												
South Africa	264	0	121	0	360	0	356	0	79	0	331	0
Tunisia	252	0	305	0	323	0	497	0	546	1	624	1
Libya	187	0	–	–	–	–	–	–	–	–	–	–
Morocco	107	0	107	0	106	0	51	0	43	0	0	0
Other rest of the world	1,075	2	784	1	948	1	492	0	74	0	131	0
TOTAL, REST OF THE WORLD	**1,885**	**2**	**1,317**	**1**	**1,737**	**2**	**1,396**	**1**	**742**	**1**	**1,086**	**1**
Total, Group	**109,265**	**100**	**101,238**	**100**	**98,519**	**100**	**109,265**	**100**	**101,238**	**100**	**98,519**	**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.

B1c. SEGMENT REPORTING, CONT.

TB1:2 Group by country	Average number of employees									Non-current assets[1]		
	2017	Of whom men, %	Of whom women, %	2016	Of whom men, %	Of whom women, %	2015	Of whom men, %	Of whom women, %	2017 SEKm	2016 SEKm	2015 SEKm
Sweden	**2,075**	**56**	**44**	**1,990**	**56**	**44**	**1,941**	**55**	**45**	**2,648**	**5,294**	**4,706**
EU excl. Sweden		–	–									
Germany	4,194	75	25	3,368	81	19	3,343	82	18	18,537	6,376	5,837
France	2,619	69	31	2,470	75	25	2,590	76	24	9,580	5,254	5,289
UK	1,589	77	23	1,505	81	19	1,511	81	19	5,209	4,160	4,689
Spain	1,213	75	25	1,182	75	25	1,173	76	24	3,826	3,707	3,812
Netherlands	1,269	82	18	1,198	84	16	1,173	84	16	2,915	2,187	2,804
Italy	869	76	24	851	77	23	830	78	22	3,263	2,567	2,043
Austria	624	82	18	616	82	18	628	82	18	819	728	707
Belgium	419	78	22	374	79	21	361	78	22	731	465	770
Finland	311	73	27	311	72	28	321	73	27	803	811	819
Denmark	95	38	62	91	36	64	84	37	63	3	3	3
Hungary	138	43	57	134	42	58	136	43	57	6	6	3
Poland	742	71	29	687	71	29	625	74	26	1,468	1,081	882
Greece	51	55	45	53	55	45	53	54	46	11	14	64
Czech Republic	65	42	58	67	37	63	68	41	59	1	1	–
Ireland	14	64	36	15	67	33	17	70	30	28	27	26
Portugal	22	55	45	21	52	48	21	43	57	72	71	68
Romania	32	38	62	31	39	61	24	33	67	–	10	–
Croatia	11	36	64	9	33	67	7	29	71	13	–	–
Slovakia	953	63	37	746	71	29	761	70	30	1,116	652	580
Lithuania	25	48	52	25	48	52	23	58	42	–	–	–
Rest of EU excl. Sweden	24	17	83	22	18	82	17	12	88	–	–	–
Total EU excl. Sweden	**15,279**	**73**	**27**	**13,776**	**77**	**23**	**13,766**	**78**	**22**	**48,401**	**28,120**	**28,396**
Rest of Europe												
Russia	1,391	60	40	1,374	60	40	1,296	59	41	1,709	1,817	1,431
Switzerland	38	34	66	30	37	63	29	42	58	201	88	82
Norway	107	38	62	104	38	62	105	36	64	2	2	2
Turkey	235	81	19	235	80	20	264	82	18	333	402	430
Ukraine	69	48	52	68	47	53	67	46	54	5	4	1
Rest of Europe excl. EU	–	–	–	–	–	–	–	–	–	–	–	–
Total, Rest of Europe	**1,840**	**61**	**39**	**1,811**	**60**	**40**	**1,761**	**61**	**39**	**2,250**	**2,313**	**1,946**
TOTAL EUROPE	**19,194**	**70**	**30**	**17,577**	**73**	**27**	**17,468**	**73**	**27**	**53,299**	**35,727**	**35,048**
North America												
US	3,588	73	27	3,376	76	24	2,497	75	25	17,400	14,686	7,805
Canada	325	62	38	283	65	35	281	64	36	591	261	224
Rest of North America	–	–	–	–	–	–	–	–	–	–	–	–
TOTAL NORTH AMERICA	**3,913**	**72**	**28**	**3,659**	**75**	**25**	**2,778**	**74**	**26**	**17,991**	**14,947**	**8,029**
Latin America												
Mexico	2,871	72	28	2,389	76	24	2,438	73	27	3,968	3,370	3,666
Colombia	3,718	69	31	3,561	69	31	3,154	69	31	2,516	2,104	1,880
Ecuador	1,068	66	34	1,104	66	34	1,148	59	41	279	305	263
Chile	622	77	23	596	80	20	647	83	17	973	884	792
Brazil	784	59	41	507	62	38	501	61	39	1,383	816	411
Costa Rica	87	51	49	89	54	46	88	54	46	2	3	3
Argentina	359	60	40	345	60	40	302	60	40	53	69	63
Dominican Republic	141	68	32	115	73	27	107	64	36	158	10	8
Peru	15	53	47	12	50	50	10	37	63	–	–	–
Nicaragua	6	17	83	8	37	63	8	37	63	–	1	1
Rest of Latin America	23	39	61	23	52	48	22	50	50	–	1	5
TOTAL LATIN AMERICA	**9,694**	**68**	**32**	**8,749**	**70**	**30**	**8,425**	**69**	**31**	**9,332**	**7,563**	**7,092**
Asia												
China	9,457	56	44	8,957	55	45	8,166	53	47	14,219	13,022	12,493
Malaysia	1,351	45	55	1,399	45	55	1,306	44	56	814	845	762
Hong Kong	85	26	74	75	39	61	–	–	–	1,108	1,323	642
Japan	142	39	61	99	21	79	107	22	78	421	4	5
Taiwan	265	57	43	268	56	44	276	57	43	602	602	552
Singapore	32	34	66	30	30	70	32	31	69	11	9	8
India	429	87	13	229	96	4	185	94	6	616	–	175
Rest of Asia	294	58	42	60	43	57	90	29	71	973	171	156
TOTAL ASIA	**12,055**	**55**	**45**	**11,117**	**54**	**46**	**10,162**	**52**	**48**	**18,764**	**15,976**	**14,793**
Rest of the world												
South Africa	330	41	59	20	35	65	108	55	45	–	3	1
Tunisia	920	88	12	894	88	12	864	88	12	805	170	180
Libya	–	–	–	–	–	–	–	–	–	139	–	–
Morocco	56	52	48	13	46	54	–	–	–	1	1	–
Other rest of the world	223	64	36	120	91	9	146	89	11	1,272	25	22
TOTAL, REST OF THE WORLD	**1,529**	**73**	**27**	**1,047**	**87**	**13**	**1,118**	**85**	**15**	**2,217**	**199**	**203**
Total, Group	**46,385**	**66**	**34**	**42,149**	**68**	**32**	**39,951**	**69**	**31**	**101,603**	**74,412**	**65,165**

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

B2. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function

SEKm	2017	2016	2015
IS Cost of goods sold	–76,899	–72,438	–71,898
IS Sales, general and administration	–19,130	–16,965	–16,216
IS Amortization of acquisition-related intangible assets	–560	–159	–133
IS TB2:1 Items affecting comparability	–940	–2,825	–786
Total	**–97,529**	**–92,387**	**–89,033**

Refer also to page 168 for a description of costs.

Operating expenses by type of cost

SEKm	Note	2017	2016	2015
TB2:2 Other income		1,045	970	923
Change in inventory of finished products and products in progress[1]		172	–82	640
Raw materials and consumables[1]		–38,191	–36,442	–37,271
Personnel costs[1]	C1	–20,142	–17,983	–16,943
TB2:3 Other operating expenses[1]		–34,444	–33,242	–31,654
Amortization of intangible assets[1]	D1	–853	–380	–275
Depreciation of property, plant and equipment[1]	D2	–4,871	–4,764	–4,489
Impairment of intangible assets[1]	D1	–132	–137	–497
Impairment of property, plant and equipment[1]	D2	–254	–420	–375
Impairment of associates[1]		–	–	–62
Gain on sale of securities[1]		–	–	970
Revaluation of previously owned shares in associates[1]	F6	72	–	0
Gain on divestment[1] [2]		69	93	–
Total		**–97,529**	**–92,387**	**–89,033**

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

TB2:1 Items affecting comparability

Distribution of items affecting comparability by type of cost

SEKm	2017	2016	2015
Impairment of inventory of finished products and products in progress	–4	–156	–29
Raw materials and consumables	–	–102	–16
Personnel costs	–69	–76	–295
Other operating expenses	–620	–1,948	–482
Amortization of intangible assets	–2	–43	–
Depreciation of property, plant and equipment	–	–36	–
Impairment of intangible assets	–132	–137	–497
Impairment of property, plant and equipment	–254	–420	–375
Impairment of associates	–	–	–62
Revaluation of previously owned shares in associates	72	–	–
Gain on divestment	69	93	–
Gain/loss on sale of securities	–	–	970
Total	**–940**	**–2,825**	**–786**

Distribution of items affecting comparability by category

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

In 2016, items affecting comparability related mainly to costs for legal disputes (SEK –1,086m), cost for the closure of tissue production plants in Spain and France (SEK –757m), the closure of the business in India (SEK –374m) and the baby diaper business in Mexico (SEK –174m), costs in connection with acquisition of Wausau Paper Corp. (SEK –204m), transaction costs for BSN medical (SEK –143m) and other costs (SEK –87m).

In 2015, items affecting comparability related mainly to costs for the impairment of trademarks associated with the baby diaper business in Mexico and the Everbeauty acquisition in Taiwan (SEK –465m), impairment of non-current assets mainly used in tissue production in France and baby diapers in Mexico (SEK –375m), integration cost in conjunction with the acquisition of Georgia Pacific (SEK –440m), costs in conjunction with the divestment of the business jet operation (SEK –170m), a gain from the sale of securities (SEK 970m) and other items (SEK 306m), which include transaction costs.

For information on items affecting comparability by segment, refer to Note B1 Segment reporting on page 111.

TB2:2 Other income

SEKm	2017	2016	2015
Sales not included in core operations	1,045	970	923
Total	**1,045**	**970**	**923**

TB2:3 Distribution of other operating expenses

SEKm	2017	2016	2015
Transport expenses	–7,425	–7,120	–7,108
Energy costs[1]	–4,498	–4,448	–4,925
Purchased finished goods for resale	–5,053	–3,739	–3,464
Marketing costs	–5,777	–5,504	–5,207
Repairs and maintenance	–2,436	–2,537	–2,227
IT, telephony and lease of premises	–1,380	–1,445	–1,307
Other operating expenses, production	–3,671	–3,291	–3,417
Other operating expenses, distribution, sales and administration	–3,644	–3,090	–3,340
Other	–560	–2,068	–659
Total	**–34 444**	**–33,242**	**–31,654**

1) After deduction for revenues from energy in the amount of SEK 227m (194; 191).

Other disclosures

Exchange rate effects had a negative impact of SEK –10m (–97; –189) on operating profit. Government grants received reduced operating expenses by SEK 65m (41; 47). Costs for research and development amounted to SEK –1,239m (–1,211; –1,055) during the period.

B3. AUDITING EXPENSES

Auditing expenses

SEKm	2017	2016	2015
EY			
Audit assignments	–58	–49	
Auditing activities other than the audit assignment	–4	–	
Tax consultancy services	–1	–	
Other assignments	–2	–4	
Total EY	**–65**	**–53**	**–**
PwC			
Audit assignments	–14	–13	–55
Auditing activities other than the audit assignment	–	–1	–2
Tax consultancy services	–	–12	–17
Other assignments	–1	–11	–23
Total PwC	**–15**	**–37**	**–97**
Other auditors			
Audit assignments	–5	–5	–4
Tax consultancy services	–2	–4	–4
Other assignments	–2	–2	–8
Total other auditors	**–9**	**–11**	**–16**
Total	**–89**	**–101**	**–113**

B4. 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 years. Interest attributable to income tax and withholding taxes deducted at source on intra-Group transactions are also recognized as 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 in so far as it is probable that these can be utilized against future taxable profits. Deferred taxes are measured 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 an acquisition. Essity does not recognize tax that may arise on future dividends of the retained earnings of foreign subsidiaries. Any such future effects (withholding tax deducted at source and other deferred tax on profit-taking within the Group) are recognized when Essity can no longer control the reversal of such differences or when, for other reasons, it is probable that a reversal can 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. For transactions in equity or in other comprehensive income, the tax effect is recognized in equity or in other comprehensive income, respectively.

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 assets and tax liabilities is extremely complicated. This requires that assessments and assumptions be 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 provisions and contingent liabilities relating to tax risks. For further information, see Note D6 Other provisions on page 125 and Note G3 Contingent liabilities and pledged assets on page 142.

Tax expense

Tax expense (+), tax income (–)

SEKm	2017	%	2016	%	2015	%
Current tax						
Income tax for the period	2,927	27.3	2,888	35.3	1,879	21.2
Adjustments for prior periods	–112	–1.0	1,654	20.2	120	1.4
Current tax expense	**2,815**	**26.3**	**4,542**	**55.5**	**1,999**	**22.6**
Deferred tax						
Changes in temporary differences	–759	–7.1	–509	–6.2	209	2.3
Adjustments for prior periods	77	0.7	–387	–4.7	218	2.5
Revaluations	–195	–1.8	285	3.5	–148	–1.7
TB4:2 TB4:3 **Deferred tax expense**	**–877**	**–8.2**	**–611**	**–7.4**	**279**	**3.1**
IS **Tax expense**	**1,938**	**18.1**	**3,931**	**48.1**	**2,278**	**25.7**

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	2017	%	2016	%	2015	%
IS Profit before tax	10,723		8,173		8,856	
IS Tax expense	1,938	18.1	3,931	48.1	2,278	25.7
Expected tax expense	2,381	22.2	1,790	21.9	2,026	22.9
Difference	**–443**	**–4.1**	**2,141**	**26.2**	**252**	**2.8**
The difference is explained by:						
Permanent differences between accounting and taxable result						
Effects of subsidiary financing[1]	–303	–2.8	–152	–1.9	–71	–0.8
Effects of acquisitions and divestments	2	0.0	53	0.6	–	–
Taxes relating to profit-taking in the Group	35	0.3	37	0.5	27	0.3
Other permanent effects[2]	147	1.4	372	4.6	–15	–0.2
Taxes related to prior periods[3]	–35	–0.3	1,267	15.5	338	3.8
Changes in the value of deferred tax assets[4]	311	2.9	670	8.2	18	0.2
Changes in tax rates[6]	–600	–5.6	–106	–1.3	–45	–0.5
Total	**–443**	**–4.1**	**2,141**	**26.2**	**252**	**2.8**

1) Effects of subsidiary financing during the year relate to the differences attributable to financing of the US business and include non-recurring effects of the restructuring of debt from the Netherlands to the US.

2) Other permanent effects for the year include non-deductible costs for tax on non-current assets of SEK 67m that arose in connection with the split of SCA. The year 2016 relates primarily to non-deductible costs for ongoing competition cases.

3) Taxes attributable to prior periods for 2016 relate, for the most part, to a tax dispute in Sweden totaling SEK 1,223m. The effect attributable to 2015 includes a tax provision of SEK 294m concerning a tax dispute in Spain.

4) The change in value of deferred tax assets relates mainly to the revaluation of loss carryforwards in the US of SEK 139m and in Brazil of SEK 156m. The change in 2016 relates mainly to the revaluation of loss carryforwards in Spain of SEK 227m, in Brazil of SEK 185m and in India of SEK 213m. The effect in 2015 includes the utilization of uncapitalized losses of SEK -81m in Belgium and SEK 62m relating to the operation in Asia.

5) Effects relating to changed tax rates are primarily attributable to the revaluation of deferred taxes in the US.

B4. INCOME TAXES, CONT.

Current tax liability

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

SEKm	2017	2016	2015
Value, January 1	**175**	**–60**	**82**
Current tax expense	2,815	4,542	1,999
CF TB4:1 Paid tax	–2,971	–3,782	–2,194
Other changes from acquisitions, divestments and reclassifications	–50	–154	–29
Transactions with shareholders	–194	–366	43
Translation differences	9	–5	39
Value, December 31	**–216**	**175**	**–60**
BS of which current tax liability	553	915	808
BS of which current tax asset	769	740	868

TB4:1 Tax by country

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

Country	Current tax expense	Deferred tax expense	Total tax expense	Paid tax
Germany	329	–90	239	–424
France	189	11	200	–198
Colombia	172	26	198	–151
Sweden	295	–97	198	–90
Belgium	201	–5	196	–196
Netherlands	165	12	177	–128
UK	47	110	157	–150
Spain	156	1	157	–155
Mexico	134	2	136	–139
Italy	101	19	120	–136
Russia	98	–3	95	–141
Chile	88	3	91	–99
Denmark	81	1	82	–35
Hong Kong	80	–3	77	–98
Brazil	1	62	63	–3
Poland	37	26	63	–33
Ecuador	57	1	58	–58
Austria	54	2	56	–18
Norway	43	2	45	–43
Finland	41	2	43	–54
Slovakia	47	–5	42	–53
Malaysia	46	–4	42	–32
Japan	49	–9	40	–45
China	103	–68	35	–126
Canada	35	–4	31	–4
US	–67	–839	–906	–69
Other countries[1]	233	–30	203	–193
CF IS **Total**	**2,815**	**–877**	**1,937**	**–2,971**

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

TB4:2 Deferred tax liability

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

SEKm	Value, January 1	Deferred tax expense	Other changes[2]	Translation differences	Acquisitions and divestments[3]	Value, December 31
Intangible fixed assets	1,696	–116	0	–22	3,984	5,542
Property, plant and equipment	4,143	–821	0	–126	196	3,392
Financial non-current assets	–119	4	–4	3	–	–116
Current assets	–272	19	–15	8	–89	–349
Provisions	–673	357	–144	0	–33	–493
Liabilities	–1,200	187	–64	23	80	–974
Tax credits and tax loss carryforwards	–1,294	–574	3	24	–448	–2,289
Other	134	67	0	–4	–52	145
BS **Total**[1]	**2,415**	**–877**	**–224**	**–94**	**3,638**	**4,858**

[1] The closing deferred tax liability comprises deferred tax assets of SEK 2,232m (1,457; 1,056) and deferred tax liabilities of SEK 7,090m (3,872; 3,756).
[2] Other changes include deferred tax recognized directly in equity and comprehensive income according to IAS 19 of SEK 217m and IAS 39 of SEK –441m.
[3] Acquisitions and divestments relate primarily to the acquisition of BSN medical.

TB4:3 Deferred tax liability, prior periods

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

YEAR	Value, January 1	Deferred tax expense	Other changes	Translation differences	Transactions with shareholders	Value, December 31
BS 2016	2,700	–611	347	211	–232	2,415
BS 2015	2,080	279	597	93	–349	2,700

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 TB4:2 in the amount of SEK 2,289m.

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 6,251m (4,648; 2,615), gross, at December 31, 2017. A large part of the change during the period is related to the acquisition of BSN medical. The change in uncapitalized loss carryforwards for the period includes SEK 1m that has expired and SEK 496m that was either utilized or capitalized. The tax value of uncapitalized tax loss carryforwards amounted to SEK 1,852m (1,373; 766). The expiry dates of these loss carryforwards are distributed as follows:

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

Year of maturity	2017	2016	2015
Within 1 year	325	85	88
2 years	136	917	286
3 years	67	1	833
4 years	28	1	27
5 years or more	1,143	988	815
Indefinite life	4,552	2,656	566
Total	**6,251**	**4,648**	**2,615**

C. EMPLOYEES

C1. PERSONNEL COSTS

No remuneration was paid to senior executives in Essity for work in this company during the years 2015 and 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for senior executives were allocated from SCA to Essity for the years 2015 and 2016. Remuneration of senior executives in Essity for 2017 was paid in its entirety from Essity.

Personnel costs

SEKm	Note	2017	2016	2015
Salaries and remuneration		–14,562	–12,801	–12,066
TC3:1 of which Executive Management Team		–126	–131	–154
of which Board	C4	–9	–8	–6
Pension costs		–1,193	–1,208	–1,170
of which defined benefit pension costs	C5	–425	–541	–597
of which other pension costs		–768	–667	–573
Other social security costs		–3,213	–2,840	–2,728
Other personnel costs		–1,174	–1,134	–979
Total[1]		**–20,142**	**–17,983**	**–16,943**

[1] Costs for implemented efficiency-enhancement activities of SEK –69m (–67; –200) are included in total personnel costs.

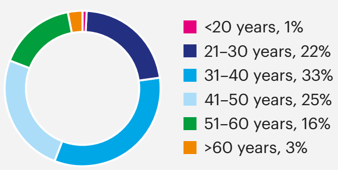
C2. PERSONNEL DATA

Personnel data

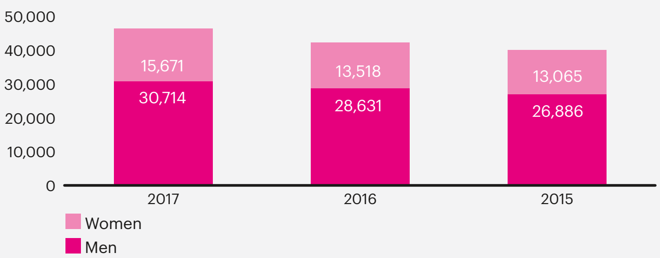
	2017	2016	2015
Employees under 20 years of age, %	1	1	1
Employees over 60 years of age, %	3	2	2
Investments in skills-enhancement activities			
total, SEKm	152	141	139
per employee, SEK	3,300	3,400	3,500
Value added per employee	666	613	642
Proportion of university graduates, %	22	22	22
Number of employees who left the Group during the period	7,321	5,994	5,355
Number of employees who joined the Group during the period	13,585	8,150	5,823
Of whom, through acquisitions	5,518		

The figures for the number of employees who left the Group during the period include both voluntary resignations and retirements. In addition, a significant portion relates to summer jobs for students and seasonal work.

Age distribution 2017



Average number of employees



In 2017, Essity had employees in 65 countries (59; 60). Women comprised 42% (43; 35) of the total number of Essity Board members and senior executives.

C3. REMUNERATION OF SENIOR EXECUTIVES

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

Annual General Meeting guidelines for remuneration of senior executives

The 2017 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 manager's responsibility and authority. Variable remuneration is to be limited and linked to the fixed remuneration, based on performance results in relation to annual and long-term established targets. In the event of termination of employment, the notice period should normally be up to two years if termination is initiated by the company, and up to one year, when initiated by the senior executive. There will be no severance pay.

Pension benefits should, wherever possible, only include 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 has the right to depart from the established guidelines if there is an individual case with special grounds. The guidelines do not take precedence over compulsory conditions in accordance with labor legislation or collective agreements. Furthermore, they are not applicable to existing contracts.

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 the Americas, the maximum outcome is 110–130%, while the corresponding limit for other senior executives is 90%. The program for variable remuneration is divided into a short and long-term portion. The short-term portion ("Short-term Incentive", or STI) for the CEO, Executive Vice President and Business Unit Presidents and equivalents may amount to a maximum of 50% of fixed salary. For the Business Unit Presidents, stationed in the Americas, the maximum outcome is 60–80% of the fixed salary, while the corresponding limit for other senior executives is 40%. The STI goals set for the Business Unit Presidents are mainly based on operating cash flow, cost control, operating margin and organic sales growth for each business unit. The goal for the CEO and others reporting directly to him is based primarily on the Group's profit before tax, operating cash flow and organic sales growth. Furthermore, for certain senior executives, a non-financial goal also applies accounting for 10–30% of the variable remuneration. The long-term portion ("Long-Term Incentive", or LTI) may amount to a maximum of 50% of the fixed salary. The senior executive is to invest half of the variable LTI compensation, after tax withholdings, in Essity shares. The shares may then not be sold before the end of the third year after the purchase of shares in the relevant LTI program. The established LTI goal is based on the performance of the company's B share, measured as the TSR (Total Shareholder Return) index, compared with a weighted index of competitors' and consumer companies' shares performance (TSR) over a three-year period.

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Outcome, variable remuneration

For the CEO, Executive Vice President and Central Staff Managers, STI resulted in 28 to 36% of fixed salary for 2017. STI resulted in variable remuneration corresponding to 17 to 46% of fixed salary for the Business Unit Presidents. The LTI target was achieved for 2015–2017, 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.

Pension

The CEO has a defined contribution pension based on an annual payment, to be paid by the company, amounting to 40% of the fixed salary, and in addition to the agreed contribution the basic pension benefits in the ITP plan, with retirement pension benefits limited to a maximum salary income of 7.5 income base amounts. The retirement age for the CEO is 65. Four of the other senior executives in Sweden have a combination of defined benefit and defined contribution pension plans that entitle the executives, on reaching the age of 60 or 65, to receive a retirement pension (including national pension benefits) of up to 45% of the average salary (excluding variable remuneration) three years prior to retirement age. For full pension, the individual must have been employed for at least 20 years calculated from 40 years of age. Upon termination of employment prior to reaching retirement age, a paid-up policy is received for pension payments from age 60 or 65, on condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years. In addition, beneficiaries' pension amounts to about 50% of retirement pension. In addition to the defined benefit pension, a pension is paid based on contributions paid by the company. The contributions paid for each year of service amount to 10% of the executive's fixed salary and are invested in a fund or traditional insurance chosen by the executive. Four senior executives in Sweden have a defined contribution pension plan (in addition to national pension benefits) into which the company pays 30 to 40% of the executives' fixed salary, which is invested in funds or traditional insurance. Five senior executives are employed in companies outside Sweden, of whom three executives are encompassed by defined contribution pension plans and two by defined benefit pension plans.

Remuneration of senior executives

No remuneration was paid to senior executives in Essity for work in this company during the years 2015 and 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for senior executives were allocated from SCA to Essity for the years 2015 and 2016. Remuneration of senior executives in Essity for 2017 was paid in its entirety from Essity.

Notice period and severance pay

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

Preparation and decision process for remuneration

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

The Board's proposal for new guidelines

The Board proposes that the 2018 Annual General Meeting adopt unchanged guidelines for remuneration of senior executives of Essity. With the salary situation prevailing in 2018 and an unchanged number of senior executives, the maximum outcome of variable remuneration could entail a cost for the Group, excluding social security costs, of approximately SEK 72m.

TC3:1 Remuneration and other benefits during the year 2017

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

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

Pension costs 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.

TC3:1 Remuneration and other benefits during the year 2016

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

1) Variable remuneration covers the 2016 fiscal year but is paid in 2017.
2) Of which LTI program SEK 5,500,000.
3) Of which LTI program SEK 29,225,605.

Pension costs 2016[1]

SEK	
President and CEO Magnus Groth[2]	4,495,961
Other senior executives (14 people)[3]	19,647,387
Total	**24,143,348**

1) The pension costs pertain to the costs that affected profit for 2016, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 15,741,000.
3) Outstanding pension obligations amount to SEK 131,665,322.

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Remuneration and other benefits during the year 2015

SEK	Fixed salary	Variable remuneration1)	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth2)	7,922,878	7,713,718 4)	428,659	16,065,255
Other senior executives (16 people)	57,041,295	45,860,681 5)	8,798,791	111,700,767
Former President and CEO Jan Johansson3)	25,491,326	0	380,318	25,871,644
Total	**90,455,499**	**53,574,399**	**9,607,768**	**153,637,666**

1) Variable remuneration covers the 2015 fiscal year but is paid in 2016.
2) President and CEO Magnus Groth, who assumed his position on March 1, 2015, collected a fixed annual salary of SEK 9.5m. In connection with the adjustment of the President and CEO's pension agreement to a defined contribution pension, his fixed annual salary was set at SEK 11m as of December 15. Accordingly, pension obligations will not continue to be earned.
3) Former President and CEO Jan Johansson, who was dismissed from the position on March 1, 2015, will continue to collect contractual employment benefits during a period of notice of two years, with the exception of variable remuneration. The above amounts pertain to Jan Johansson's fixed salary, benefits and pension costs for the period from 2015 until February 28, 2017, when his employment ends.
4) Of which LTI program SEK 3,992,608.
5) Of which LTI program SEK 25,880,748.

Pension costs 2015 1)

SEK	
President and CEO Magnus Groth2)	3,153,521
Other senior executives (16 people)3)	60,803,840
Former President and CEO Jan Johansson4)	25,027,185
Total	**88,984,546**

1) The pension costs pertain to the costs that affected profit for 2015, excluding special payroll tax.
2) Outstanding pension obligations amount to SEK 16,304,000.
3) Outstanding pension obligations amount to SEK 130,516,000.
4) Outstanding pension obligations amount to SEK 83,014,000.

Obligations to former presidents and CEOs

For former presidents and CEOs, Essity has outstanding, unfunded obligations amounting to SEK 182m. These costs were recognized in previous years and comprise pension obligations that Essity assumed from Svenska Cellulosa Aktiebolaget in conjunction with the split of the Group.

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

No remuneration was paid to Board members of Essity Aktiebolag (publ) for Board work in this company during the years 2015 and 2016. In conjunction with the distribution of Essity Aktiebolag (publ), costs for Board members were allocated from SCA to Essity for the years 2015 and 2016. Remuneration of Board members in Essity Aktiebolag (publ) for 2017 was paid in its entirety from Essity Aktiebolag (publ). Remuneration to non-executive Board members of Essity Aktiebolag (publ) refers to the fees approved at the AGM on April 5, 2017 for the period until the next AGM in April 2018. No remuneration is paid to the President and CEO and other employees.

	Board fee			Audit Committee fee			Remuneration Committee fee			Total		
SEK	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Pär Boman (Chairman)	2,100,000	2,100,000	2,100,000	250,000	200,000	130,000	135,000	135,000	135,000	2,485,000	2,435,000	2,365,000
Eva Björling	700,000	700,000								700,000	700,000	0
Maija-Liisa Friman	700,000	700,000								700,000	700,000	0
Annemarie Gardshol	700,000	700,000	700,000							700,000	700,000	700,000
Leif Johansson			700,000						105,000			805,000
Louise Svanberg	700,000	700,000	700,000				105,000	105,000	105,000	805,000	805,000	805,000
Johan Malmquist	700,000	700,000								700,000	700,000	0
Bert Nordberg	700,000	700,000	700,000	250,000	200,000	130,000	105,000	105,000		1,055,000	1,005,000	830,000
Barbara Milian Thoralfsson	700,000	700,000	700,000	330,000	250,000	175,000				1,030,000	950,000	875,000
Lars Rieben Sørensen	700,000									700,000		0
Total	**7,700,000**	**7,000,000**	**5,600,000**	**830,000**	**650,000**	**435,000**	**345,000**	**345,000**	**345,000**	**8,875,000**	**7,995,000**	**6,380,000**

C5. REMUNERATION AFTER EMPLOYMENT

AP ACCOUNTING PRINCIPLES

Defined benefit pension plans

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

The defined benefit obligations are calculated annually by independent actuaries using the Projected Unit Credit Method. Calculation is based on actuarial assumptions. Actuarial assumptions comprise the company's best assessment of the variables that determine the final cost for providing the benefits. The obligation is measured at the present value of the anticipated future cash flows using a discount rate (see key assessments and assumptions on page 120). 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" in 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 contributions the company has committed 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 that applying to defined benefit pension plans.

Severance pay

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

C5. REMUNERATION AFTER EMPLOYMENT, CONT.

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 TC5:5. The sensitivity of the recognized provision with respect to key actuarial assumptions is described in TC5:6.

Provisions for pensions and similar obligations

SEKm	2017	2016	2015
TC5:2 Defined benefit obligations	33,007	30,638	25,561
TC5:3 Fair value of plan assets	–30,418	–26,363	–23,839
TC5:4 Effect of asset ceiling	804	663	1,162
TC5:1 **Provision for pensions, net**	**3,393**	**4,938**	**2,884**

Surpluses in funded plans recognized as financial non-current assets amounted to BS SEK 1,148m (335; 35) on the balance sheet date and provisions for pensions totaled BS SEK 4,541m (5,273; 2,919). Defined benefit obligations include obligations in an amount of SEK 2,313m (2,268; 1,917) pertaining to unfunded plans.

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

TC5:1 Provisions for pensions and similar obligations per country

SEKm Country	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
Netherlands	1,977	1,109	1,308	4,394	–3,939	–	455	23
UK	1,952	6,974	7,137	16,063	–16,601	–	–538	19
Sweden	1,540	989	995	3,524	–2,959	804	1,369	19
Germany	1,954	534	1,324	3,812	–3,633	–	179	16
US	959	945	1,546	3,450	–2,760	–	690	13
Other	1,451	3	310	1,764	–526	–	1,238	13
Total	**9,833**	**10,554**	**12,620**	**33,007**	**–30,418**	**804**	**3,393**	

Netherlands

The plan is a defined benefit plan with contributions 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 contribution discounts. The plan is based on average salary and includes retirement pension, beneficiaries' pension and disability pension. The plan is obligated to meet the minimum legislated funding level. The plan applies a duration matching strategy to control the interest rate risk.

United Kingdom

The plan is a defined benefit plan with contributions paid by the company and the employee. The plan is based on final salary and includes retirement pension, beneficiaries' pension and disability pension. The plan was closed to new participants in July 2007. The plan is managed by an independent fund, according to UK law. Surpluses in the pension fund remain in the fund assets but can be utilized in the form of contribution discounts. The plan is obligated to meet the minimum funding level according to an agreement with the pension fund.

Sweden

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

Germany

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

US

In the US, the defined benefit obligations comprise retirement pensions in which the contributions 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 contribution discounts.

Costs for the period for defined benefit plans

SEKm	2017	2016	2015
Current service cost, after deduction for premiums paid by the employees	–564	–511	–578
Past service cost	104	–25	–21
Pension-tax expense	–32	–27	–52
Remeasurement, net	–7	–5	2
Net interest income/expense	–136	–117	–140
Pension costs before effects of settlements	**–635**	**–685**	**–789**
Settlements	42	–	–
Pension costs after effects of settlements	**–593**	**–685**	**–789**

TC5:2 Defined benefit obligations

SEKm	2017	2016	2015
Value, January 1	**30,638**	**25,561**	**26,943**
Current service cost	575	524	588
Interest expense	858	922	843
Past service cost	–104	25	21
Pension-tax expense	32	27	52
Settlements and transfers	212	–16	5
Acquisitions and disposals	972	2,168	–
Benefits paid	–1,114	–1,062	–969
Pension taxes paid	–5	–49	–36
Remeasurement: financial assumptions	1,332	3,966	–1,555
Remeasurement: demographic assumptions	–198	–35	–89
Remeasurement: experience-based assumptions	–57	–571	–85
Pension taxes pertaining to remeasurement	55	30	–219
Transactions with shareholders	–	22	39
Translation differences	–189	–874	23
Value, December 31	**33,007**	**30,638**	**25,561**

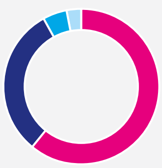
Remeasurements in the defined benefit obligations comprise changes in financial assumptions, such as changes to the discount rate, etc., any changes in demographic assumptions and experience-based deviations. Experience-based deviations include unexpectedly high or low employee turnover or salary increases. For 2017, acquisitions and disposals relate to the acquisition of BSN medical.

TC5:3 Plan assets

SEKm	2017	2016	2015
Fair value, January 1	**–26,363**	**–23,839**	**–22,992**
Interest income	–740	–843	–728
Acquisitions and disposals	–661	–1,473	–
Contributions by plan participants	–11	–13	–10
Contributions by the employer	–1,367	–959	–952
Benefits paid, excluding settlements	1,110	1,054	964
Benefits paid for settlements	–226	30	2
Return in excess of recognized interest income	–2,316	–1,782	–119
Administrative expenses for pension obligations	32	40	24
Transactions with shareholders	–	443	–
Translation differences	124	979	–28
Fair value, December 31	**–30,418**	**–26,363**	**–23,839**

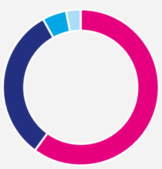
For 2017, acquisitions and disposals relate to the acquisition of BSN medical.

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



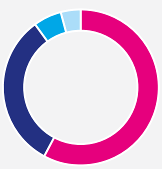
- Shares and mutual funds, 61% (SEK 18,555m)
- Interest-bearing securities, 31% (SEK 9,430m)
- Properties, real estate, 5% (SEK 1,521m)
- Other, 3% (SEK 912m)

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



- Shares and mutual funds, 60% (SEK 15,818m)
- Interest-bearing securities, 32% (SEK 8,436m)
- Properties, real estate, 5% (SEK 1,318m)
- Other, 3% (SEK 791m)

The plan assets are distributed according to the following classes of assets, 2015:



- Shares and mutual funds, 58% (SEK 13,827m)
- Interest-bearing securities, 32% (SEK 7,628m)
- Properties, real estate, 6% (SEK 1,430m)
- Other, 4% (SEK 954m)

95% (95; 94) 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, 2017.

TC5:4 Effect of asset ceiling

SEKm	2017	2016	2015
Value, January 1	**663**	**1,162**	**1,004**
Interest expense	18	38	25
Transactions with shareholders	–	–498	–
Other changes to asset ceiling	123	–39	133
Value, December 31	**804**	**663**	**1,162**

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

TC5:5 Principal actuarial assumptions

	Sweden	UK	Germany	Netherlands	US
2017					
Discount rate	2.39	2.50	1.61	1.77	3.70
Expected salary increase rate	3.25	3.00	2.85	2.85	N/A
Expected inflation	2.00	3.00	1.60	1.60	N/A
Life expectancy, men[1]	22	22	19	22	20
Life expectancy, women[1]	25	24	23	24	22
2016					
Discount rate	2.73	2.72	1.31	1.80	4.13
Expected salary increase rate	2.75	3.00	2.85	2.85	N/A
Expected inflation	1.50	3.00	1.60	1.60	N/A
Life expectancy, men[1]	22	22	19	22	20
Life expectancy, women[1]	25	25	23	24	22
2015					
Discount rate	3.27	3.85	1.94	2.45	4.38
Expected salary increase rate	2.75	3.50	2.85	2.85	N/A
Expected inflation	1.50	3.00	1.60	1.60	N/A
Life expectancy, men[1]	22	22	19	22	20
Life expectancy, women[1]	25	25	23	24	22

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

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

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

SEKm	
Discount rate +0.25%	1,397
Price inflation, incl. salary inflation +0.25%	–990
Longevity +1 year	–1,250

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 2018 were calculated at SEK 929m. Contributions for multiemployer plans for 2018 were calculated at SEK 43m.

D. OPERATING ASSETS AND LIABILITIES

D1. INTANGIBLE ASSETS

AP ACCOUNTING PRINCIPLES

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

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

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

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

Research and development
Research expenditure is recognized as an expense as incurred. Identifiable expenditure for development of new products and processes is capitalized to the extent it is expected to provide future economic benefits. In cases in which it is difficult to separate the research phase from the development phase in a project, the entire project is treated as research and expensed immediately. Capitalized expenditure is amortized on a straight-line basis from the date when the asset starts to be used during the estimated useful life of the asset. The amortization period is between five and ten years.

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

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

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

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

D1. INTANGIBLE ASSETS, CONT.

Goodwill

SEKm	2017	2016	2015
Accumulated costs	31,956	19,428	15,452
Accumulated impairment	–259	–175	–40
Total	**31,697**	**19,253**	**15,412**
Value, January 1	**19,253**	**15,412**	**15,660**
Company acquisitions	13,290	3,375	–
Company divestments	–	–	–
Reclassifications	–	–	–
Impairment	–84	–135	–30
Translation differences	–762	601	–218
BS **Value, December 31**	**31,697**	**19,253**	**15,412**

Intangible assets excluding goodwill

	Trademarks			Licenses, patents and similar rights			Capitalized development costs			Total Other intangible assets		
SEKm	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Accumulated costs	13,840	6,782	6,647	11,404	4,472	3,831	352	12	35	25,596	11,266	10,513
Accumulated amortization	–358	–318	–244	–3,412	–2,890	–2,424	–43	–12	–31	–3,813	–3,220	–2,699
Accumulated impairment	–365	–452	–532	–65	–5	–3	–	–	–3	–430	–457	–538
Total	**13,117**	**6,012**	**5,871**	**7,927**	**1,577**	**1,404**	**309**	**–**	**1**	**21,353**	**7,589**	**7,276**
Value, January 1	**6,012**	**5,871**	**6,373**	**1,577**	**1,404**	**1,448**	–	**1**	**4**	**7,589**	**7,276**	**7,825**
Investments	–	–	–	749	155	221	71	–	–	820	155	221
Sales and disposals	–	–	–	–21	–1	–2	–	–	–	–21	–1	–2
Company acquisitions	7,095	33	–	6,112	180	–	265	–	–	13,472	213	–
Reclassifications	28	–	76	285	128	–2	–	–	–	313	128	74
Amortization[1]	–68	–59	–27	–754	–321	–248	–31	–	–	–853	–380	–275
Impairment	–	–	–464	–48	–2	–	–	–	–3	–48	–2	–467
Translation differences	50	167	–87	27	34	–13	4	–1	–	81	200	–100
Value, December 31	**13,117**	**6,012**	**5,871**	**7,927**	**1,577**	**1,404**	**309**	**–**	**1**	**21,353**	**7,589**	**7,276**
TD1:1 Emission allowances, net value										71	76	75
BS **Value, December 31 including emission allowances**										**21,424**	**7,665**	**7,351**

[1] Amortization of Trademarks and Customer relations is included in Sales, general and administration while for Licenses and patents is included in Cost of goods sold.

Impairment testing

Annual testing for impairment of goodwill and trademarks with indefinite useful lives is carried out in the fourth quarter. The testing showed that no impairment was needed for 2017, 2016 or 2015. The recoverable amount of the trademarks was determined through a present value calculation, in which expected future cash flows were discounted using a WACC before tax of between 5.4% and 18.7%, depending on the market, to determine the value in use. 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 to determine whether any impairment is needed. During the period, goodwill was impaired by SEK –84m in connection with the closure of a minor Personal Care operation.

Distribution by operating segment

	Goodwill			Trademarks			WACC, before tax %		
SEKm	2017	2016	2015	2017	2016	2015	2017	2016	2015
Personal Care	16,039	3,036	2,757	8,230	1,109	1,069	9.5	11.3	10.3
Consumer Tissue	9,276	9,335	9,416	4,878	4,891	4,792	9.2	8.3	8.6
Professional Hygiene	6,382	6,882	3,239	9	12	10	8.2	8.3	7.9
Total	**31,697**	**19,253**	**15,412**	**13,117**	**6,012**	**5,871**			

TD1:1 Emission allowances

SEKm	2017	2016	2015
Accumulated costs	71	88	86
Accumulated revaluation of surplus	0	–12	–11
Total	**71**	**76**	**75**
Value, January 1	**76**	**75**	**70**
Emission allowances received	47	58	53
Purchases	17	–	4
Settlement with the government	–71	–64	–50
Revaluation of surplus	0	–1	–5
Translation differences	2	8	3
Value, December 31	**71**	**76**	**75**

D2. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment is recognized at cost less accumulated depreciation and any impairment. In cases where an investment in foreign currency has been recognized using hedge accounting, the gain/loss from the hedge is recognized as part of the acquisition cost. The cost of properties and production facilities included in major projects include running-in and start-up costs. 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 balance sheet date, there is an indication that property, plant and equipment has declined in value, impairment testing is carried out.

Expected useful lives

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

Carrying amounts

	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
SEKm	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Accumulated costs	21,158	20,253	18,293	4,014	3,887	3,917	73,111	71,071	62,420	4,678	3,901	2,774
Accumulated depreciation	–8,800	–8,097	–7,059	–542	–498	–422	–43,710	–41,577	–36,235	–1	–24	–
Accumulated impairment	–295	–331	–255	–26	–64	–66	–1,073	–992	–965	–32	–35	–
Total	**12,063**	**11,825**	**10,979**	**3,446**	**3,325**	**3,429**	**28,328**	**28,502**	**25,220**	**4,645**	**3,842**	**2,774**
Value, January 1	**11,825**	**10,979**	**10,895**	**3,325**	**3,429**	**3,628**	**28,502**	**25,220**	**25,555**	**3,842**	**2,774**	**3,521**
Investments	607	191	406	22	26	23	1,394	2,054	1,731	4,170	3,979	3,329
Sales and disposals	–17	–12	–2	–5	–11	–2	–78	–107	–132	–1	–	–22
Company acquisitions	299	511	–	64	27	–	767	2,290	–	221	68	–
Company divestments	–14	–	–	–1	10	–	–16	–	–48	–	–	–
Reclassifications	389	505	849	113	–161	24	2,779	2,297	2,842	–3,507	–3,066	–3,915
Depreciation[1)]	–730	–707	–757	–47	–44	–45	–4,094	–3,989	–3,687	–	–24	–
Impairment	–65	–159	–39	–11	–102	–45	–178	–127	–291	–	–32	–
Translation differences	–231	517	–373	–14	151	–154	–748	864	–750	–80	143	–139
Value, December 31	**12,063**	**11,825**	**10,979**	**3,446**	**3,325**	**3,429**	**28,328**	**28,502**	**25,220**	**4,645**	**3,842**	**2,774**

1) Included primarily in Cost of goods sold.

Total property, plant and equipment

SEKm	**2017**	**2016**	**2015**
Accumulated costs	102,961	99,112	87,404
Accumulated depreciation	–53,053	–50,196	–43,716
Accumulated impairment	–1,426	–1,422	–1,286
Total	**48,482**	**47,494**	**42,402**
Value, January 1	**47,494**	**42,402**	**43,599**
Investments	6,193	6,250	5,489
Sales and disposals	–101	–130	–158
Company acquisitions	1,351	2,896	–
Company divestments	–31	10	–48
Reclassifications	–226	–425	–200
Depreciation[1)]	–4,871	–4,764	–4,489
Impairment	–254	–420	–375
Translation differences	–1,073	1,675	–1,416
BS Value, December 31	**48,482**	**47,494**	**42,402**

1) Included primarily in cost of goods sold.

Impairment losses for the year totaling SEK –254m mainly arose from the closure of a tissue production facility in the US and the close down of a tissue machine in the UK.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 41m (19; 47) and in construction in progress in an amount of SEK 0m (31; –). The average interest rate used was 5% (10; 8).

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	**2017**	**2016**	**2015**
Raw materials and consumables	4,162	3,156	3,582
Spare parts and supplies	1,513	1,443	1,284
Products in progress	1,420	1,262	1,171
Finished products	6,641	5,080	5,183
Advance payments to suppliers	3	3	9
BS Total	**13,739**	**10,944**	**11,229**

Impairment of inventories amounted to SEK 47m (288; 79), of which SEK 4m (258; 45) was recognized in conjunction with restructuring as an item affecting comparability, refer to Note B2 Operating expenses on page 114.

D4. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2017	2016	2015
VAT receivables	891	707	667
Prepaid expenses and accrued income	496	485	413
Suppliers with debit balance	256	155	228
Receivables for electricity and gas	116	103	79
Receivables from authorities	85	103	107
Derivatives	208	314	70
Receivables from associates	–	–	–
Other receivables	497	466	536
BS **Total**	**2,549**	**2,333**	**2,100**

D5. OTHER LIABILITIES

Other liabilities

SEKm	2017	2016	2015
Other non-current liabilities			
Derivatives	5	2	108
Other non-current liabilities	74	70	38
BS **Total**	**79**	**72**	**146**
Of which items that fall due for payment later than within five years	17	28	16
Other current liabilities			
Derivatives	42	76	379
TD5:1 Accrued expenses and prepaid income	9,575	8,843	7,950
Other operating liabilities	2,952	2,685	2,416
BS **Total**	**12,569**	**11,604**	**10,745**

TD5:1 Accrued expenses and prepaid income

SEKm	2017	2016	2015
Accrued social security costs	371	375	360
Accrued vacation pay liability	621	625	529
Other liabilities to personnel	1,150	1,039	935
Bonus and discounts to customers	4,401	4,039	3,760
Other items	3,032	2,765	2,366
Total	**9,575**	**8,843**	**7,950**

D6. OTHER PROVISIONS

AP ACCOUNTING PRINCIPLES

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

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

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

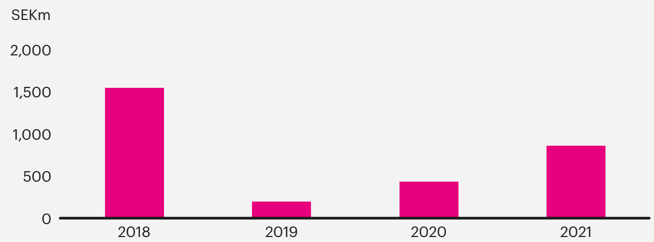
Other provisions 2017

SEKm	Efficiency programs	Tax risks	Environment	Legal disputes	Other	Total
Value, January 1	**882**	**520**	**71**	**1,009**	**334**	**2,816**
Provisions	198	241	64	64	391	958
Company acquisitions	108	69	–	–	14	191
Utilization	–497	–	–72	–10	–40	–619
Reclassifications	–1	61	–	18	–1	77
Dissolutions	–137	–1	–	–275	–3	–416
Translation differences	2	–	3	14	2	21
Value, December 31	**555**	**890**	**66**	**820**	**697**	**3,028**
Provisions comprise:						
BS Short-term component						1,547
BS Long-term component						1,481

In 2016, provisions for the period amounted to SEK 2,165m, utilization to SEK –1,110m, reclassifications to SEK 15m and dissolutions and translation differences to SEK –29m.

In 2015, provisions for the period amounted to SEK 852m, utilization to SEK –571m, reclassifications to SEK 109m and dissolutions and translation differences to SEK –111m.

Distribution of other provisions by maturity



Provisions for the period for "Efficiency programs" are mainly attributable to the closure of a tissue production facility in the US, the closure of a tissue machine in the UK and the restructuring program related to the acquisition of BSN medical. Provisions for the period for "Tax risks" relate mainly to uncertainty concerning the restructuring programs implemented. Of the provisions for the period for "Environment," SEK 64m pertains to a liability for carbon dioxide emissions, which will be paid out in 2018. Provisions for the period for "Legal disputes" are mainly related to increased provisions for disputes in Chile and France. Provisions for the period for "Other" are primarily associated with foreign tax of a non-recurring nature on non-current assets outside Sweden arising from the split of SCA into two listed companies.

Dissolutions for the period for "Efficiency programs" are mainly attributable to the restructuring programs in France and India. Dissolutions for the period for "Legal disputes" relate primarily to the competition case in Poland.

The provisions at the end of the period attributable to "Efficiency programs" relate primarily to the restructuring programs in France and India, and the restructuring program related to the acquisition of BSN medical. Provisions for "Tax risks" relate primarily to a tax dispute in Denmark and uncertainty surrounding implemented restructuring programs. Provisions for "Environment" pertain mainly to a liability for carbon dioxide emissions. "Legal disputes" mainly consists of reserves relating to competition cases, primarily attributable to Chile, Hungary and Spain, and recycling fees/taxes for packaging in France. Other provisions mainly comprise reserves in connection with foreign tax of a non-recurring nature on non-current assets outside Sweden.

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. Available-for-sale 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. Impairment of financial assets takes place when there is objective proof of impairment, such as cessation of an active market or where it is probable that the debtors cannot meet their commitments.

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

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

Fair value measurement

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

For disclosures in a note relating to non-current loans, current market interest rates are taken into account in fair value calculations. 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

On the acquisition date, Essity classifies financial instruments into 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 the year.

Held-to-maturity investments

Held-to-maturity investments are defined as financial assets that have determinable payments and that Essity intends to hold to maturity. 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 the year.

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 129.

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

Financial instruments by category and measurement level

SEKm	Note	Measurement level	2017	2016	2015
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	13	52	41
Derivatives – Other non-current assets		2	–	48	2
Derivatives – Current financial assets	E2	2	771	169	465
Derivatives – Other current receivables	D4	2	33	171	70
Total			**817**	**440**	**578**
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	16,292	16,021	10,967
Current financial liabilities	E4	2	–	425	5,634
Derivatives – Non-current financial liabilities	E4	2	21	19	–
Derivatives – Current financial liabilities	E4	2	396	502	467
Derivatives – Other non-current liabilities	D5	2	–	–	51
Derivatives – Other current liabilities	D5	2	18	55	127
Total			**16,727**	**17,022**	**17,246**
Loan and trade receivables					
Non-current financial assets	E2	–	27	24	233
Current financial assets	E2	–	274	61	43
Trade receivables	E3	–	17,607	15,843	14,808
Cash and cash equivalents	E2	–	4,107	4,244	4,828
Total			**22,015**	**20,172**	**19,912**
Available-for-sale financial assets					
Non-current financial assets	E2	1	87	82	75
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	31,312	15,256	10,381
Current financial liabilities	E4	–	6,689	4,059	6,280
Trade payables	–	–	14,748	12,972	11,869
Total			**52,749**	**32,287**	**28,530**
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	425	556	379
Other non-current assets	–	2	78	106	–
Other current receivables	D4	2	175	143	–
Current financial assets	E2	2	60	14	268
Total			**738**	**819**	**647**
Non-current financial liabilities	E4	2	12	3	115
Other non-current liabilities	D5	2	5	2	57
Current financial liabilities	E4	2	116	103	21
Other current liabilities	D5	2	24	21	252
Total			**157**	**129**	**445**

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, for which the fair value is disclosed in Note E4 Financial liabilities on page 128.

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

SEKm	Note	2017 Financial instruments	2017 Of which derivatives	2016 Financial instruments	2016 Of which derivatives	2015 Financial instruments	2015 Of which derivatives
Assets							
Financial assets, cash and cash equivalents	E2	5,764	1,269	5,202	791	6,332	1,153
Other non-current assets		78	78	154	154	2	2
Trade receivables	E3	17,607	–	15,843	–	14,808	–
Other current receivables	D4	208	208	314	314	70	70
Total		**23,657**	**1,555**	**21,513**	**1,259**	**21,212**	**1,225**
Liabilities							
Financial liabilities	E4	54,838	545	36,388	627	33,865	603
Other non-current liabilities	D5	5	5	2	2	108	108
Trade payables		14,748	–	12,972	–	11,869	–
Other current liabilities	D5	42	42	76	76	379	379
Total		**69,633**	**592**	**49,438**	**705**	**46,221**	**1,090**

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.

Available-for-sale financial assets are measured at fair value. Changes in value are recognized in equity under other comprehensive income, while exchange gains and losses are recognized in profit or loss.

Financial assets, cash and cash equivalents

SEKm	Carrying amount 2017	2016	2015
Non-current financial assets			
TE2:1 Available-for-sale financial assets	87	82	75
Derivatives	438	608	420
Loan receivables, associates	–	–	207
Loan receivables, other	27	24	26
BS **Total**	**552**	**714**	**728**
Current financial assets			
Financial assets	19	19	–
Derivatives	831	183	733
Accrued financial income	–	–	1
Loan receivables, other	255	42	42
BS **Total**	**1,105**	**244**	**776**
Cash and cash equivalents			
Cash and bank balances	3,365	2,888	2,340
Current investments < 3 months	742	1,356	2,488
BS **Total**	**4,107**	**4,244**	**4,828**
Total financial assets, cash and cash equivalents	**5,764**	**5,202**	**6,332**

Cash and cash equivalents at December 31, 2017 include SEK 1,974m (1,672; 1,088) 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.

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

TE2:1 Available-for-sale financial assets

SEKm	2017	2016	2015
Value, January 1	**82**	**75**	**1,807**
Investments	2	4	–
Divestment of securities	–	–	–2,046
Remeasurement taken to equity, net	1	–1	318
Translation differences	2	4	–4
Value, December 31	**87**	**82**	**75**

Available-for-sale financial assets

SEKm	2017	2016	2015
Pension assets not included in IAS 19 calculation	87	82	75
Total	**87**	**82**	**75**

Shares in pension assets attributable to certain pension obligations are classified as available-for-sale financial assets. These assets are not included in the normal pension calculations, as set out in Note C5 Remuneration after termination of employment on page 119.

E3. TRADE RECEIVABLES

AP ACCOUNTING PRINCIPLES

Trade receivables are recognized at amortized cost after a provision is made for doubtful receivables. The provision for doubtful receivables is based on an individual assessment of each customer. Any impairment of trade receivables affects Essity's operating profit in the form of a selling expense. Essity's trade receivables are generally current and are not discounted.

Trade receivables

SEKm	2017	2016	2015
Trade receivables, gross	17,864	16,116	15,017
Provision to reserves for doubtful receivables	–257	–273	–209
BS TE3:1 **Total**	**17,607**	**15,843**	**14,808**

TE3:1 Analysis of credit risk exposure in trade receivables

SEKm	2017	2016	2015
Trade receivables neither overdue nor impaired	15,529	14,175	13,432
Trade receivables overdue but not impaired			
< 30 days	1,389	1,161	897
30–90 days	425	276	245
> 90 days	264	231	234
Trade receivables overdue but not impaired	**2,078**	**1,668**	**1,376**
Total	**17,607**	**15,843**	**14,808**

Essity's customer structure is dispersed, with customers in many different areas of business. In 2017, Essity's ten largest customers accounted for 22.9% (26.6; 26.4) of Essity's sales. The single largest customer accounted for 3.6% (4.0) of sales. More information is available in the Risks and risk management section on page 71.

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 1,329m (867; 1,593). Of this amount, SEK 203m (59; 767) relates to the category Trade receivables overdue but not impaired.

Provision to reserves for doubtful receivables

SEKm	2017	2016	2015
Value, January 1	**–273**	**–209**	**–192**
Provision for possible loan losses	–61	–95	–67
Confirmed losses	12	21	38
Increase due to acquisitions	–53	–	–
Decrease due to reversal of provisions for possible loan losses	116	15	4
Translation differences	2	–5	8
Value, December 31	**–257**	**–273**	**–209**

The expense for the period for doubtful receivables amounted to SEK –55m (–80; –63).

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. Transaction costs are recognized on a straight-line basis over the term of the loan.

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

Financial liabilities

SEKm	2017	2016	2015
Current financial liabilities			
Amortization within one year	269	256	471
Bond issues	2,946	–	7,445
Derivatives	512	604	480
Loans with maturities of less than one year	3,305	4,132	3,900
Accrued financial expenses	169	97	106
BS **Total**[1]	**7,201**	**5,089**	**12,402**
Non-current financial liabilities			
Bond issues	35,687	18,708	14,725
Derivatives	33	23	123
Other long-term loans with maturities > 1 year < 5 years	9,876	8,078	3,150
Other long-term loans with maturities > 5 years	2,041	4,490	3,465
BS **Total**	**47,637**	**31,299**	**21,463**
Total financial liabilities	**54,838**	**36,388**	**33,865**
Fair value of financial liabilities	54,227	36,719	33,814

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

E4. FINANCIAL LIABILITIES, CONT.

Borrowing

Essity has a Euro Medium Term Note (EMTN) program with a program amount of EUR 6,000m (SEK 59,038) for issuing bonds in the European capital market. As of December 31, 2017, a nominal EUR 4,188m (2,217; 2,441) was outstanding with a remaining maturity of 4.7 years (4.8; 4.1).

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm
Notes EUR 300m	2018	2,946	2,946
Notes SEK 600m	2019	614	604
Notes SEK 900m	2019	899	910
Green bond SEK 1,500m	2019	1,499	1,521
Notes EUR 300m	2020	2,981	2,970
Notes EUR 500m	2021	4,885	4,895
Notes EUR 600m	2022	5,866	5,872
Notes EUR 500m	2023	5,216	5,265
Notes EUR 600m	2024	5,872	5,868
Notes EUR 300m	2025	2,974	2,888
Notes EUR 500m	2027	4,881	4,877
Total		**38,633**	**38,616**

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

Commercial paper program[1)]

Program size	Issued SEKm
Commercial paper SEK 15,000m	–
Commercial paper EUR 800m	–
Total	–

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

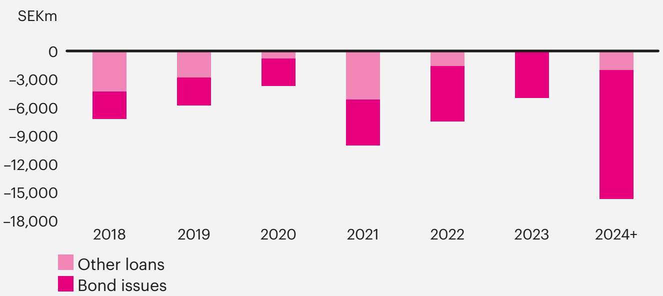
Essity has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. Contracted bilateral credit facilities with banks are used to supplement these syndicated bank facilities.

Credit facilities

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 1,000m	2019[1)]	9,840	–	9,840
	EUR 1,000m	2021	9,840	–	9,840
Total			**19,680**	–	**19,680**

1) In January 2018, the syndicated credit facility maturing in 2019 was refinanced. The new credit facility, maturing in 2023, has the same nominal amount.

Maturity profile of gross debt[1)]



1) Gross debt includes accrued interest in the amount of SEK 169m.

After additions for net pension provisions and deductions for cash and cash equivalents, interest-bearing receivables and capital investment shares, the net debt was SEK 52,467m (35,173; 19,058). For a description of the methods used by the Essity Group to manage its refinancing risk, refer to the Risks and risk management section on page 71.

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 71.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
2017				
Loans including interest	7,014	10,814	18,277	21,255
Net settled derivatives	–11	–22	–4	–
Energy derivatives	11	3	–	–
Trade payables	14,589	159	–	–
Total	**21,603**	**10,954**	**18,273**	**21,255**
Gross settled derivatives[1)]	65,401	1,921	1,414	–
2016				
Loans including interest	4,791	10,069	10,964	11,475
Net settled derivatives	–6	–16	–11	–
Energy derivatives	29	1	–	–
Trade payables	12,790	182	–	–
Total	**17,604**	**10,236**	**10,953**	**11,475**
Gross settled derivatives[1)]	38,315	2,392	51	1,373
2015				
Loans including interest	12,151	5,780	6,696	10,284
Net settled derivatives	–18	–48	–28	–69
Energy derivatives	357	96	–	–
Trade payables	11,796	74	–	–
Total	**24,286**	**5,902**	**6,668**	**10,215**
Gross settled derivatives[1)]	41,262	1,025	–	293

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

E6. DERIVATIVES AND HEDGE ACCOUNTING

AP ACCOUNTING PRINCIPLES

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized as described below. When using hedge accounting, the relationship between the hedge 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 hedging 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 case the forecasted cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative gain or loss that is recognized in equity under other comprehensive income is transferred directly to profit or loss. Cash flow hedges relating to energy are recognized as energy costs, that is, cost of goods sold. Cash flow hedges related to transaction exposure are recognized in consolidated net sales and expenses. Cash flow hedges relating to interest expenses are recognized in net financial items.

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

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 the cash-flows of the interest rate derivative are discounted at the same interest rate.

Economic hedges

When Essity conducts hedges and the transactions do not meet requirements for hedge accounting according to IAS 39, changes in fair value of the hedging instrument are recognized directly in profit or loss.

Outstanding derivatives

SEKm	Total	Of which Currency[1]	Of which Interest rate	Of which Energy
2017				
Nominal	86,503	69,073	15,885	1,545
Asset	1,555	891	425	239
Liability	592	565	12	15
2016				
Nominal	56,599	38,695	16,094	1,810
Asset	1,259	351	561	347
Liability	705	664	11	30
2015				
Nominal	84,713	64,639	18,133	1,941
Asset	1,225	660	538	27
Liability	1,090	516	121	453

[1] Nominal SEK 100,661m (110,115; 135,448) is outstanding before the right of set-off.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2017		
Gross amount	1,669	706
Offsettable amount	–114	–114
Net amount recognized in the balance sheet	1,555	592
ISDA agreements whose transactions are not offset in the balance sheet	–471	–471
Net after offsetting in accordance with ISDA agreements	**1,084**	**121**
December 31, 2016		
Gross amount	2,394	1,840
Offsettable amount	–1,135	–1,135
Net amount recognized in the balance sheet	1,259	705
ISDA agreements whose transactions are not offset in the balance sheet	–288	–288
Net after offsetting in accordance with ISDA agreements	**971**	**417**
December 31, 2015		
Gross amount	2,236	2,101
Offsettable amount	–1,011	–1,011
Net amount recognized in the balance sheet	1,225	1,090
ISDA agreements whose transactions are not offset in the balance sheet	–472	–472
Net after offsetting in accordance with ISDA agreements	**753**	**618**

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 66. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2017. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category on page 126.

Income statement

Hedges pertaining to transaction exposure had an impact of SEK –106m (64; 46) on operating profit for the period. At year-end, the net market value amounted to SEK –9m (45; 28). Currency hedges increased the cost of non-current assets by SEK 10m (reduced: 5; reduced: 1). At year-end, the net market value amounted to SEK 20m (24; –17). Energy derivatives had an impact of SEK 90m (–239; –241) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 225m (317; –426) at year-end. Derivatives impacted net interest items to the amount of SEK –289m (–68; 16). The net market value of outstanding interest rate derivatives amounted to SEK 413m (550; 417) at year-end. For further information relating to net financial items, see Note E7 Financial income and expenses on page 131.

Sensitivity analysis

Essity has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2017 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 54m (4; 6).

If the Swedish krona had unilaterally weakened/strengthened by 5%, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 0m (1; 0). If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have increased/decreased energy costs for the period by SEK 214m (203; 146). In addition to the earnings impact, equity would have increased/decreased by SEK 120m (107; 57). 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.

Outstanding derivatives with hedge accounting[1]

SEKm	Asset	Liability	Net	Tax	Hedge reserve after tax
2017					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	216	–14	202	–50	152
Currency risk	33	–15	18	–4	14
Total	**249**	**–29**	**220**	**–54**	**166**
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk[2]	60	–230	–170		
Fair value hedges					
Interest rate risk	425	–12	413		
Total	**734**	**–271**	**463**	**–54**	**166**
2016					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	241	–18	223	–59	164
Currency risk	6	–6	–	–	–
Total	**247**	**–24**	**223**	**–59**	**164**
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk[2]	704	–537	167		
Fair value hedges					
Interest rate risk	561	–8	553		
Total	**1,512**	**–569**	**943**	**–59**	**164**

[1] Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives
[2] Derivatives before offsetting

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Outstanding derivatives with hedge accounting[1)]

SEKm	Asset	Liability	Net	Tax	Hedge reserve after tax
2015					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	–	–302	–302	82	–220
Currency risk	–	–2	–2	–7	–9
Total	**–**	**–304**	**–304**	**75**	**–229**
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk[2)]	860	–259	601		
Fair value hedges					
Interest rate risk	538	–115	423		
Total	**1,398**	**–678**	**720**	**75**	**–229**

1) Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives
2) Derivatives before offsetting

The results from hedging of net investments in foreign operations are recognized in the translation reserve, refer to Note E8 Shareholders' equity on page 132. 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 2018. With unchanged exchange rates, profit after tax will be affected negatively to the amount of SEK 1m (pos. 2; 0). Currency derivatives relating to hedging of the cost of non-current assets have a maturity spread until November 2019. With unchanged exchange rates, the cost of non-current assets will decrease by SEK 15m (increase: 2; increase: 9) after tax.

The derivatives intended to hedge energy costs in the Group mature during 2018 and 2019. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 152m (neg: 164; neg: 220).

Hedging of net investments

Essity has hedged net investments in a number of selected legal entities in order to achieve the desired distribution of net debt relative to assets so that performance measures that are important to the company's credit rating can be protected in the long term. The result of hedging positions affected equity in 2017 by a total of SEK –1,968m (–437; 58). This result is largely due to hedges of net investments in USD. The total market value of outstanding hedging transactions at the end of the period was SEK 170m (167; 601). In total at year-end, Essity hedged net investments outside Sweden amounting to SEK –15,384m. Essity's total foreign net investments at year-end amounted to SEK 65,389m.

E7. FINANCIAL INCOME AND EXPENSES

Financial income and expenses

SEKm	2017	2016	2015
Results from shares and participations in other companies			
Dividend	2	2	80
Interest income and similar profit items			
Interest income, investments	156	186	180
Other financial income	–	14	52
Total financial income	**158**	**202**	**312**
Interest expenses and similar loss items			
Interest expenses, borrowing	–882	–843	–1,067
Interest expenses, derivatives	–321	–92	7
Fair value hedges, unrealized	32	24	9
Other financial expenses	–169	–126	–89
Total financial expenses	**–1,340**	**–1,037**	**–1,140**
Total	**–1,182**	**–835**	**–828**

Other financial income and expenses include an exchange difference of SEK –70m (14; 52).

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 83m (103; 43) higher/lower. Sensitivity analysis calculations have been performed on the risk to which Essity was exposed at December 31, 2017 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 71.

E8. EQUITY

AP ACCOUNTING PRINCIPLES

Transaction costs directly relating to the issue of new shares or options are recognized, net after tax, in equity as a reduction in the issue proceeds. Expenditure for the purchase of own shares reduces retained earnings in equity in the Parent Company and the portion of consolidated equity that pertains to owners of the Parent. When these are sold, the sales proceeds are included in retained earnings in the equity pertaining to owners of the Parent. Furthermore, transactions considered to be transfers between companies that are jointly controlled are recognized as separate transactions with shareholders as shown below.

Equity totalled SEK 49,570m (39,580; 48,275) at December 31, 2017. The following tables show the distribution and profit for the period.

SEKm	Share capital	Reserves[1]	Retained earnings	Equity attributable to Essity's shareholders	Non-controlling interests	Total equity
Value, January 1, 2017	**0**	**4,061**	**29,143**	**33,204**	**6,376**	**39,580**
IS Profit for the period recognized in profit or loss			**8,116**	**8,116**	**669**	**8,785**
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans[2]			1,065	1,065	–4	1,061
Income tax attributable to components in other comprehensive income			–218	–218	–	–218
			847	**847**	**–4**	**843**
Items that have been or can be transferred to profit for the period						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity				–		–
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
Result from hedging of net investments in foreign operations		–1,968		–1,968		–1,968
Other comprehensive income from associates			–22	–22		–22
Tax on items recognized directly in/transferred from equity[3]		440	–1	439		439
Other comprehensive income for the period, net of tax		**–907**	**820**	**–87**	**–312**	**–399**
Comprehensive income for the period		**–907**	**8,936**	**8,029**	**357**	**8,386**
Bonus issue	2,350		–2,350	–		–
Private placement to non-controlling interests			504	504	465	969
Private placement to non-controlling interests, dilution			–290	–290	290	–
Acquisition of non-controlling interests				–	78	78
Transactions with shareholders			842	842	–	842
Dividend to non-controlling interests				–	–285	–285
BS Value, December 31	**2,350**	**3,154**	**36,785**	**42,289**	**7,281**	**49,570**

1) Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Reserves line in the balance sheet, refer to page 134.
2) Including payroll tax.
3) For a specification of income tax attributable to components in other comprehensive income, refer to page 134.

E8. EQUITY, CONT.

SEKm	Share capital	Reserves[1]	Retained earnings	Equity attributable to Essity's shareholders	Non-con-trolling interests	Total equity
Value, January 1, 2016	**0**	**1,501**	**41,485**	**42,986**	**5,289**	**48,275**
IS Profit for the period recognized in profit or loss			**3,800**	**3,800**	**442**	**4,242**
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans[2]			–1,570	–1,570	1	–1,569
Income tax attributable to components in other comprehensive income			421	421	–	421
			–1,149	**–1,149**	**1**	**–1,148**
Items that have been or can be transferred to profit for the period						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity		–1		–1		–1
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		275		275		275
Transferred to profit or loss for the period		274		274		274
Transferred to cost of hedged investments		–19		–19		–19
Translation differences in foreign operations		2,508		2,508	234	2,742
Result from hedging of net investments in foreign operations		–437		–437		–437
Other comprehensive income from associates			12	12		12
Tax on items recognized directly in/transferred from equity[3]		–40	–1	–41		–41
Other comprehensive income for the period, net of tax		**2,560**	**–1,138**	**1,422**	**235**	**1,657**
Comprehensive income for the period		**2,560**	**2,662**	**5,222**	**677**	**5,899**
Private placement to non-controlling interests			240	240	199	439
Private placement to non-controlling interests, dilution			–110	–110	110	–
Issue expenses, private placement			–4	–4	–4	–8
Acquisition of non-controlling interests			–799	–799	643	–156
Acquisition of non-controlling interests, dilution			348	348	–348	–
Transactions with shareholders			–14,679	–14,679	–	–14,679
Dividend to non-controlling interests				–	–190	–190
BS Value, December 31	**0**	**4,061**	**29,143**	**33,204**	**6,376**	**39,580**
Value, January 1, 2015	**0**	**4,015**	**35,660**	**39,675**	**5,250**	**44,925**
IS Profit for the period recognized in profit or loss			**6,129**	**6,129**	**449**	**6,578**
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans[2]			1,933	1,933		1,933
Income tax attributable to components in other comprehensive income			–418	–418		–418
			1,515	**1,515**	**–**	**1,515**
Items that have been or can be transferred to profit for the period						
Available-for-sale financial assets:						
Result from measurement at fair value recognized in equity		318		318		318
Transferred to profit or loss upon sale		–970		–970		–970
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		–450		–450		–450
Transferred to profit or loss for the period		342		342		342
Translation differences in foreign operations		–1,729		–1,729	–215	–1,944
Result from hedging of net investments in foreign operations		–58		–58		–58
Other comprehensive income from associates			–17	–17		–17
Tax on items recognized directly in/transferred from equity[3]		33		33		33
Other comprehensive income for the period, net of tax		**–2,514**	**1,498**	**–1,016**	**–215**	**–1,231**
Comprehensive income for the period		**–2,514**	**7,627**	**5,113**	**234**	**5,347**
Acquisition of non-controlling interests			–40	–40	21	–19
Transactions with shareholders			–1,762	–1,762		–1,762
Dividend to non-controlling interests				–	–216	–216
BS Value, December 31	**0**	**1,501**	**41,485**	**42,986**	**5,289**	**48,275**

1) Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Reserves line in the balance sheet, refer to page 134.
2) Including payroll tax.
3) For a specification of income tax attributable to components in other comprehensive income, refer to page 134.

E8. EQUITY, CONT.

Equity, specification of reserves

SEKm	Revaluation reserve[1] 2017	Revaluation reserve[1] 2016	Revaluation reserve[1] 2015	Hedge reserve[2] 2017	Hedge reserve[2] 2016	Hedge reserve[2] 2015	Available-for-sale assets 2017	Available-for-sale assets 2016	Available-for-sale assets 2015	Translation reserve 2017	Translation reserve 2016	Translation reserve 2015
Value, January 1	**107**	**107**	**107**	**164**	**–229**	**–145**	**6**	**7**	**659**	**3,784**	**1,616**	**3,394**
Available-for-sale financial assets:												
Result from measurement at fair value recognized in equity								–1	318			
Transferred to profit or loss upon sale									–970			
Cash flow hedges:												
Result from remeasurement of derivatives recognized in equity				35	275	–450						
Transferred to profit or loss for the period				–56	274	342						
Transferred to cost of hedged investments				10	–19	–						
Acquired cash flow hedges				4								
Translation differences in foreign operations[3]				2	–1	5				626	2,509	–1,734
Result from hedging of net investments in foreign operations										–1,968	–437	–58
Tax on items recognized directly in/transferred from equity				7	–136	19				433	96	14
Other comprehensive income/loss for the period, net of tax				**2**	**393**	**–84**		**–1**	**–652**	**–909**	**2,168**	**–1,778**
Value, December 31	**107**	**107**	**107**	**166**	**164**	**–229**	**6**	**6**	**7**	**2,875**	**3,784**	**1,616**

1) Revaluation reserve includes effect on equity of step acquisitions.
2) See also Note E6 Derivatives and hedge accounting on page 129 for details of when profit or loss is expected to be recognized.
3) Transfer to profit or loss of realized exchange gains relating to divested companies is included in the amount of SEK –19m (–13; –).

Specification of income tax attributable to other comprehensive income for the period

SEKm	2017 Before tax	2017 Tax effect	2017 After tax	2016 Before tax	2016 Tax effect	2016 After tax	2015 Before tax	2015 Tax effect	2015 After tax
Actuarial gains and losses relating to defined benefit pension plans	1,061	–218	843	–1,569	421	–1,148	1,933	–418	1,515
Available-for-sale financial assets	–	–	–	–1	–	–1	–652	–	–652
Cash flow hedges	–11	7	–4	530	–136	394	–108	19	–89
Translation differences in foreign operations	320	–	320	2,742	–	2,742	–1,944	–	–1,944
Other comprehensive income/loss from associates	–22	–1	–23	12	–1	11	–17	–	–17
Result from hedging of net investments in foreign operations	–1,968	433	–1,535	–437	96	–341	–58	14	–44
Other comprehensive income/loss for the period	**–620**	**221**	**–399**	**1,277**	**380**	**1,657**	**–846**	**–385**	**–1,231**

At December 31, 2017, the debt/equity ratio amounted to 1.06 (0.89; 0.39). Changes in liabilities and equity are described in the Financial position section on page 65. 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 66. The Essity share section on page 38 outlines Essity's dividend policy, while its capital structure is described in the Targets and outcomes section on page 30.

Transactions with shareholders

Specification of transactions with shareholders

SEKm	2017	2016	2015
Dividend/Group contribution	–255	–4,637	–3,443
Contributions received	903	1,271	1,375
Tax effect	194	599	306
Transfer of net assets till SCA's forest products business[1]	–	–11,912	–
Total	**842**	**–14,679**	**–1,762**

1) For further information, see Note G4 Transactions with related parties on page 142.

F. GROUP STRUCTURE

F1. SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Subsidiaries
The companies over which Essity has control are consolidated as subsidiaries. Control means that Essity has sufficient influence to control the activities of the subsidiary, has the right to its returns and has control over its exposure, and is able to impact the return of the company through its influence. Most of the Group's subsidiaries are wholly owned, which means that Essity has control over the companies. Essity owns 52% of Vinda, 50% of Familia, 49% of Sancella and 49% of Unicharm Mölnlycke; Essity also has control of these companies, despite the fact that there are significant non-controlling interests in the companies. The acquisition of BSN medical, refer to Note F6 Acquisitions and divestments on page 139, included a minor subsidiary in Venezuela that was divested in December 2017. Because there was no possibility to exercise control, the company was not consolidated during the holding period.

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

List of major subsidiaries
The Group's participations in major subsidiaries at December 31, 2017. The following selection of wholly owned subsidiaries and subsidiaries with significant non-controlling interests includes companies with external sales in excess of SEK 500m in 2017. The process of renaming the companies from SCA to Essity will continue in 2018.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2017	Share of equity at December 31, 2016	Share of equity at December 31, 2015
Essity France SAS	509 395 109	Saint-Ouen, France	100	100	100
Essity Holding Nederlands B.V.	30-135 724	Zeist, Netherlands	100	100	100
SCA Hygiene Products (Fluff) Ltd.	577 116	Dunstable, UK	100	100	100
Essity Professional Hygiene North America LLC	58-2494137	Delaware, USA	100	100	100
Vinda International Holdings Ltd[1]	90235	Hong Kong, China	52	55	51
Essity Operations Wausau LLC	41-2218501	Wisconsin, USA	100	100	–
Essity Germany GmbH	HRB 713 332	Mannheim, Germany	100	100	100
Essity Hygiene and Health AB	556007-2356	Gothenburg, Sweden	100	100	100
Essity Spain S.L.	B28451383	Puigpelat, Spain	100	100	100
Essity Higiene y Salud Mexico, S.A. de C.V.	SCM-931101-3S5	Mexico City, Mexico	100	100	100
Productos Familia S.A. Colombia [1]	8909001619	Medellin, Colombia	50	50	50
Essity Italy S.p.A.	3 318 780 966	Altopascio, Italy	100	100	100
SCA Hygiene Products Russia OOO	4704 031 845	Moscow, Russia	100	100	100
Essity Poland Sp.z.o.o.	KRS No. 0000427360	Warsaw, Poland	100	100	100
Essity Austria GmbH	FN 49537 z	Vienna, Austria	100	100	100
Essity Belgium SA-NV	BE0405.681.516	Stembert, Belgium	100	100	100
Essity Professional Hygiene Germany GmbH	HRB 710 878	Mannheim, Germany	100	100	100
Essity Canada Inc.	421984	Ontario, Canada	100	100	100
OY Essity Finland AB	0165027-5	Espoo, Finland	100	100	100
Essity HMS North America Inc.	23-3036384	Delaware, USA	100	100	100
Productos Familia del Sancela Ecuador S.A. [1]	1791314379001	Quito, Ecuador	50	50	50
Essity Norway AS	915 620 019	Oslo, Norway	100	100	100
Essity Switzerland AG	CHE-106.977.885	Schenkon, Switzerland	100	99	99
Essity Denmark A/S	DK20 638 613	Allerød, Denmark	100	100	100
Essity Chile SA	94.282.000-3	Santiago de Chile, Chile	100	100	100
Sancella S.A.	B14441997	La Charguia, Tunisia	49	49	49
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	Bois-Colombes, 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	Roissy, Bobigny, France	100	100	100
Essity Operations Manchester Ltd	4119442	Dunstable, UK	100	100	100
BSN medical GmbH	HRB 124 187	Hamburg, Germany	100	–	–
BSN Radiante SAS	652 880 519	Le Mans, France	100	–	–
BSN Medical Distribution Limited	04381725	Willerby, UK	100	–	–
SCA do Brasil Indústria e Comércio Ltda	72.899.016/0001-99	Osasco, Brazil	100	100	100
BSN Medical Inc.	3269728	Delaware, USA	100	–	–

[1] Essity has a small number of subsidiaries that are partly owned and hold significant non-controlling interests, see TF2:1 on page 136.

F2. JOINTLY OWNED SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Vinda

Vinda is one of China's largest hygiene companies. Essity has been a shareholder in Vinda since 2007, became its majority shareholder in late 2013, and has consolidated Vinda's financials since the first quarter of 2014. In 2014, Essity divested its hygiene business in China, Hong Kong and Macau for integration with Vinda. In 2016, Essity's divestment of its business in Southeast Asia, Taiwan and South Korea for integration with Vinda was approved by the company's independent shareholders and the transaction was completed on April 1, 2016. Following this transaction, Essity's holding amounted to 54.6%. In 2017, Vinda acquired a property via a private placement that diluted Essity's holding to 52%. Vinda's market capitalization on the Hong Kong stock exchange was SEK 19,705 (19,329; 16,533) at the end of the period.

Familia

Familia is 50% owned by Essity and 49.8% owned by the Gomez family. Essity is considered to have a controlling influence over Familia, despite the fact that Essity does not hold a majority of shares in the company. Essity is deemed to have a controlling influence since it has control over the activities with the most significant impact on Familia's return. Familia operates in the South American market and sells Personal Care, Consumer Tissue and Professional Hygiene products.

Financial information

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

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

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

	Vinda[1]			Familia[1]		
SEKm	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Condensed income statement						
Net sales	14,728	13,297	10,463	6,283	6,075	6,186
Operating profit before depreciation/amortization of acquisition-related assets	1,074	1,038	736	882	733	783
Operating profit	1,067	1,038	736	882	733	783
Profit for the period	670	685	302	649	236	607
Of which attributable to owners of the Parent	348	374	155	316	115	311
Other comprehensive income for the period	163	–94	194	–411	486	–684
Of which attributable to owners of the Parent	85	–51	119	–233	270	–412
Comprehensive income/loss for the period	**833**	**591**	**496**	**238**	**722**	**–77**
Of which attributable to owners of the Parent	433	323	274	83	385	–101
Of which attributable to non-controlling interests	400	268	222	155	337	24
Dividend to non-controlling interests	107	55	88	122	87	92
Condensed balance sheet						
Non-current assets	18,324	17,327	13,587	3,151	3,250	2,917
Current assets	6,209	5,669	4,623	3,116	2,825	2,494
Total	**24,533**	**22,996**	**18,210**	**6,267**	**6,075**	**5,411**
Equity attributable to owners of the Parent	7,871	7,573	5,895	2,585	2,398	2,089
Equity attributable to non-controlling interests	5,348	4,503	3,570	1,791	1,764	1,510
Non-current liabilities	5,730	5,394	4,543	394	475	486
Current liabilities	5,584	5,526	4,202	1,497	1,438	1,326
Total	**24,533**	**22,996**	**18,210**	**6,267**	**6,075**	**5,411**
Cash flow from operating activities	1,080	2,439	810	969	569	440
Cash flow from investing activities	–1,401	–1,129	–1,322	–203	–60	–135
Cash flow from financing activities	–329	–583	171	–435	–349	–249
Cash flow for the period	**–650**	**727**	**–341**	**331**	**160**	**56**

[1] For more information about the companies, refer to the list of major subsidiaries on page 135.

F3. JOINT VENTURES AND ASSOCIATES

AP ACCOUNTING PRINCIPLES

Joint arrangements

Essity classifies its joint arrangements as joint ventures or joint operations, which are presented in Note F4 Joint operations on page 138.

Joint ventures

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

Associates

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

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

F3. JOINT VENTURES AND ASSOCIATES, CONT.

Carrying amounts of joint ventures and associates

SEKm	2017	2016	2015
Joint ventures			
Value, January 1	**130**	**114**	**122**
Net increase in joint ventures[1)]	9	10	4
Reclassification between joint ventures and associates	–	–	–8
Translation differences	5	6	–4
Value, December 31	**144**	**130**	**114**
Associates			
Value, January 1	**966**	**927**	**925**
Investments	–	–	66
Company acquisitions	3	–	–
Company divestments	–	–40	–
Net increase in associates[1)]	–28	11	40
Impairment of associates	–	–	–62
Reclassification between associates and subsidiaries	–8	–	–
Reclassification between joint ventures and associates	–	–	8
Translation differences	–15	68	–50
Value, December 31	**918**	**966**	**927**
BS TF3:1 Value, December 31, joint ventures and associates	**1,062**	**1,096**	**1,041**

1) Net increase for the period includes the Group's share of the profit after tax of joint ventures and associates, as well as items recognized directly in equity (both after deductions for any non-controlling interests), in addition to an adjustment for dividends received during the period, which amounted to SEK 5m (2; 11) for joint ventures and SEK 171m (147; 125) for associates.

Joint ventures and associates

Asaleo Care Ltd

As of 2014, Asaleo Care Ltd in Australia is recognized as an associate in accordance with the equity method, following the flotation of the company on the Australian Securities Exchange (ASX). In connection with the flotation, Essity's participation decreased to 32.5% from the previous figure of 50%. In 2015, the company implemented a program to repurchase shares from the market, in which Essity did not participate. This caused Essity's participation in Asaleo Care to increase to 34.7% during the fourth quarter of 2015. This program continued in 2016, resulting in Essity's share in the company increasing to 35.9%. Asaleo Care manufactures and markets Consumer Tissue, Professional Hygiene and Personal Care products. Essity has licensed its Tork and TENA brands to Asaleo Care for sale in Australia, New Zealand and Fiji.

Bunzl & Biach

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

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

	Joint ventures			Associates					
	Bunzl & Biach			Asaleo Care Ltd			Total		
SEKm	2017	2016	2015	2017	2016	2015	2017	2016	2015
Condensed income statement									
Net sales	1,123	955	852	3,829	3,851	3,946	4,952	4,806	4,798
Depreciation/amortization	–11	–11	–11	–188	–185	–169	–199	–196	–180
Operating profit	28	22	31	604	597	736	632	619	767
Interest income	–	–	–	–	2	3	–	2	3
Interest expenses	–	–	–	–76	–67	–64	–76	–67	–64
Other financial items	1	1	3	–	–2	–3	1	–1	–
Tax expense	–7	–	–8	–154	–155	–193	–161	–155	–201
Profit for the period	22	23	26	374	375	479	396	398	505
Other comprehensive income/loss for the period	–	–	–1	–61	31	–49	–61	31	–50
Comprehensive income for the period	**22**	**23**	**25**	**313**	**406**	**430**	**335**	**429**	**455**
Condensed balance sheet									
Non-current assets	120	118	106	3,402	3,600	3,343	3,522	3,718	3,449
Cash and cash equivalents	19	15	10	194	199	214	213	214	224
Other current assets	174	120	93	1,250	1,269	1,159	1,424	1,389	1,252
Total assets	**313**	**253**	**209**	**4,846**	**5,068**	**4,716**	**5,159**	**5,321**	**4,925**
Non-current financial liabilities	92	60	50	1,975	2,121	1,792	2,067	2,181	1,842
Other non-current liabilities	47	46	47	257	252	181	304	298	228
Current financial liabilities	–	–	–	8	28	24	8	28	24
Other current liabilities	30	25	16	703	652	668	733	677	684
Total liabilities	**169**	**131**	**113**	**2,943**	**3,053**	**2,665**	**3,112**	**3,184**	**2,778**
Net assets	**144**	**122**	**96**	**1,903**	**2,015**	**2,051**	**2,047**	**2,137**	**2,147**
Group share of net assets	71	60	47	688	725	711	759	785	758
Fair value adjustment	62	58	56	182	178	119	244	236	175
Carrying amount of the companies	**133**	**118**	**103**	**870**	**903**	**830**	**1,003**	**1,021**	**933**
Carrying amount of other joint ventures	11	12	11	–	–	–	11	12	11
Carrying amount of other associates	–	–	–	48	63	97	48	63	97
BS TF3:2 Carrying amount of joint ventures and associates	**144**	**130**	**114**	**918**	**966**	**927**	**1,062**	**1,096**	**1,041**
Market value, December 31				**5,232**	**5,296**	**5,495**			

F3. JOINT VENTURES AND ASSOCIATES, CONT.

TF3:2 Carrying amounts of joint ventures and associates

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2017 %	Share of equity at December 31, 2016 %	Share of equity at December 31, 2015 %	Carrying amount December 31, 2017 SEKm	Carrying amount December 31, 2016 SEKm	Carrying amount December 31, 2015 SEKm
Joint ventures								
Bunzl & Biach GmbH	FN79555v	Vienna, Austria	49	49	49	133	118	103
Other						11	12	11
Associates								
Asaleo Care Ltd	61 154 461 300	Melbourne, Australia	36	36	35	870	903	830
Other						48	63	97
BS TF3:1 **Carrying amount, December 31**						**1,062**	**1,096**	**1,041**

F4. JOINT OPERATIONS

AP ACCOUNTING PRINCIPLES

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

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

Joint operations

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2017	Share of equity at December 31, 2016	Share of equity at December 31, 2015
Uni-Charm Mölnlycke B.V.	02-330 631	Hoogezand, Netherlands	40	40	40
ProNARO GmbH	HRB 8744	Stockstadt, Germany	50	50	50
Nokianvirran Energia Oy (NVE)	213 1790-4	Kotipakka, Finland	27	27	27

Uni-Charm Mölnlycke

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

ProNARO

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

Nokianvirran Energia

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

F5. SHARES AND PARTICIPATIONS

Shares and participations

SEKm	2017	2016	2015
Value, January 1	**32**	**33**	**40**
Increase through acquisitions	3	–	–
Divestments	–3	–1	–7
BS **Value, December 31**	**32**	**32**	**33**

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

F6. ACQUISITIONS AND DIVESTMENTS

AP ACCOUNTING PRINCIPLES

Acquisition of subsidiaries

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

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

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

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

Non-controlling interests

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

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

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

Acquisitions in 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 was SEK 1,394m, and takeover of net debt amounted 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 debt; the payments mainly concerned two earlier acquisitions in the US in 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 estimated sales would have amounted to SEK 8,363m, adjusted EBITDA to SEK 1,767m and adjusted EBITA to SEK 1,526m. This is based on an annualization of the acquisition's impact since the acquisition date.

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

Acquired operations

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

Acquisitions in 2016

On October 13, 2015, a public bid for Wausau Paper Corp., one of the largest Professional Hygiene companies in the North American market, was announced. The transaction was approved by US authorities on November 17, 2015, and Wausau Paper's shareholders accepted the bid at the general meeting held on January 20, 2016. The transaction was completed on January 21, 2016, with all shares in the company being acquired. Essity has consolidated Wausau as of this date. The consideration transferred amounted to USD 513m (SEK 4,401m) in cash. Goodwill is motivated by synergies between Essity and Wausau Paper, including the capacity to offer customers a broad portfolio of products. The acquisition is expected to generate annual synergies of approximately USD 40m, with full effect three years after closing. Synergies are expected in sourcing, production, logistics, reduced imports, increased volumes of premium products and reduced sales, general and administration costs. The restructuring costs are expected to amount to approximately USD 50m. The cost for the acquisition amounted to SEK 90m.

A minor acquisition of Sensassure in Canada was completed during the year. The consideration transferred amounted to SEK 47m, of which SEK 19m relates to an earn-out payment that is contingent upon certain performance measures being met. In 2017, SEK 7m was paid in relation to Sensassure.

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

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

F6. ACQUISITIONS AND DISPOSALS, CONT.

Acquisitions in 2015

Apart from the acquisition of Nampak, which is described in more detail below, Essity made only minor supplementary investments in 2015 and made earn-out payments for previously acquired companies. In July, Essity signed an agreement to acquire the remaining 50% of the jointly owned South African subsidiary Sancella S.A. Nampak. The purchase consideration amounted to SEK 1. Essity had already recognized Sancella S.A. as a subsidiary, which is why the acquisition will be recognized as an equity transaction.

The acquisitions conducted during the period, which amounted to SEK 74m, were paid in cash. The earn-out payment for FZCO Sancella amounted to SEK 19m, of which SEK 11m was paid in cash and the remaining SEK 8m was recognized as a financial liability. Operating profit for the period includes acquisition costs of approximately SEK 1m.

Effect on sales and earnings in 2015 of acquisitions for the period

No new acquisitions were carried out during the period.

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. The acquisition balance sheets for 2017 are preliminary.

Acquisition balance sheets

SEKm	2017	2016	2015
Intangible assets	13,472	213	–
Property, plant and equipment	1,351	2,896	–
Other non-current assets	333	–	66
Operating assets	3,286	672	–
Cash and cash equivalents	498	14	–
Provisions and other non-current liabilities	–4,278	–71	–
Net debt excl. cash and cash equivalents	–13,042	–2,124	–
Operating liabilities	–1,352	–528	–
Fair value of net assets	**268**	**1,072**	**66**
Goodwill	13,290	3,375	–
Consolidated value of share in associates	–8	–	–
Revaluation of previously owned shares in associates	–72	–	–
Non-controlling interests	–78	–	–
Consideration transferred	**13,400**	**4,447**	**66**
Consideration transferred	–13,400	–4,447	–66
Earn-out payment	–	19	11
Settled debt pertaining to acquisitions in earlier years	–108	–2	–6
Cash and cash equivalents in acquired companies	498	14	–
Settled financial debt pertaining to acquisitions in earlier years	–62	–	–
CF Effect on Group's cash and cash equivalents, acquisition of operations	**–13,072**	**–4,416**	**–83**
of which recognized as acquisitions of holdings in Investing activities	–13,070	–4,416	–72
of which recognized as acquisitions of non-controlling interests in Financing activities	–2	–	–11
Purchase consideration settled/entered as liability	7	–	–9
Acquired net debt excl. cash and cash equivalents	–13,042	–2,124	–
Settled financial debt pertaining to acquisitions in earlier years	62	–	–
OCF Acquisition of operations during the period, including net debt assumed	**–26,045**	**–6,540**	**–92**

Specification of preliminary acquisition balance sheet 2017

SEKm	BSN medical	Other	Total
Intangible assets	13,472	–	13,472
Property, plant and equipment	1,350	1	1,351
Other non-current assets	329	4	333
Operating assets	3,161	125	3,286
Cash and cash equivalents	471	27	498
Provisions and other non-current liabilities	–4,278	–	–4,278
Net debt excl. cash and cash equivalents	–13,038	–4	–13,042
Operating liabilities	–1,272	–80	–1,352
Fair value of net assets	**195**	**73**	**268**
Goodwill	13,145	145	13,290
Consolidated value of share in associates	–	–8	–8
Revaluation of previously owned shares in associates	–	–72	–72
Non-controlling interests	–80	2	–78
Consideration transferred	**13,260**	**140**	**13,400**
Consideration transferred	–13,260	–140	–13,400
Settled debt pertaining to acquisitions in earlier years	–	–108	–108
Cash and cash equivalents in acquired companies	471	27	498
Settled financial debt pertaining to acquisitions in earlier years	–	–62	–62
CF Effect on Group's cash and cash equivalents, acquisition of operations	**–12,789**	**–283**	**–13,072**
of which recognized as acquisitions of holdings in Investing activities	–12,789	–281	–13,070
of which recognized as acquisitions of non-controlling interests in Financing activities	–	–2	–2
Purchase consideration settled/entered as liability	–	7	7
Acquired net debt excl. cash and cash equivalents	–13,038	–4	–13,042
Settled financial debt pertaining to acquisitions in earlier years	–	62	62
OCF Acquisition of operations during the period, including net debt assumed	**–25,827**	**–218**	**–26,045**

Adjustment of preliminary acquisition balance sheets for 2017

An acquisition analysis is considered preliminary until it is confirmed. A preliminary acquisition analysis is changed as soon as new information regarding assets/liabilities on the acquisition date is obtained, although the acquisition balance sheet must be confirmed not later than one year from the date of the acquisition. The preliminary acquisition analysis for BSN medical of assets in the form of customers relationships, brands, technology and goodwill may be adjusted after Essity has finalized the valuation of BSN medical's brands. The acquisition analysis for Continental de Negocias S.A in the Dominican Republic is preliminary and may be adjusted. Acquisition analyses prepared in 2016 were confirmed in accordance with the preliminary acquisition analyses without any adjustments in 2017.

Divestments

In March, various non-current assets and operating assets were divested in connection with the closure of a tissue machine in the UK. The purchase consideration amounted to SEK 37m and the capital loss to SEK –6m. In addition to this divestment, payment was received for a number of minor divestments, with the total purchase consideration for these amounting to SEK 5m and the capital gain to SEK +4m. All capital gains were recognized in items affecting comparability in profit or loss.

Assets and liabilities included in divestments

SEKm	2017	2016	2015
Property, plant and equipment	31	–10	48
Other non-current assets	–	43	–
Operating assets	16	3	68
Non-current assets held for sale	–	124	–
Cash and cash equivalents	1	8	–
Operating liabilities	–4	–15	–
Gain/loss on sale[1]	–2	165	–
Compensation received	**42**	**318**	**116**
Less:			
Receivable for unpaid purchase consideration	–12	–	–67
Cash and cash equivalents in divested companies	–1	–8	–
Add:			
Payment of receivable for purchase consideration	–	59	–
CF Effect on Group's cash and cash equivalents, divestments	**29**	**369**	**49**
Less:			
Divested net debt excl. cash and cash equivalents	–	–	–
OCF Divestment of operations during the period, including net debt transferred	**29**	**369**	**49**

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

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE

AP ACCOUNTING PRINCIPLES

Non-current assets held for sale and discontinued operations

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

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

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

Non-current assets held for sale and discontinued operations

SEKm	2017	2016	2015
Buildings	9	59	53
Land	18	31	67
Machinery and equipment	15	66	–
BS Total	**42**	**156**	**120**

In 2017, non-current assets held for sale amounted to SEK 42m and were attributable to the discontinuation of an operation in India.

G2. LEASES

AP ACCOUNTING PRINCIPLES

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

Leasing expenses

SEKm	2017	2016	2015
Operating leases	–776	–696	–681
Finance leases, depreciation/amortization	–2	–2	–5
Finance leases, interest expense	0	0	–2
Total	**–778**	**–698**	**–688**

Operating leases, future minimum lease payments

SEKm	2017	2016	2015
Within 1 year	572	515	485
Between 1 and 5 years	975	1,209	933
Later than 5 years	980	1,392	545
Total	**2,527**	**3,116**	**1,963**

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

Finance leases, future minimum lease payments

SEKm	2017	2016	2015
Within 1 year	1	1	6
Between 1 and 5 years	1	1	12
Later than 5 years	–	–	35
Total	**2**	**2**	**53**
Of which, interest	0	0	–18
Present value of future minimum lease payments	**2**	**2**	**35**

Other disclosures

Total payments for finance leases during the period amounted to SEK –2m (–31; –9), of which amortization of debt accounted for SEK –2m (–31; –7). The carrying amount of finance lease assets at year-end amounted to SEK 0m (0; 29) relating to buildings/land and SEK 5m (5; 3) relating to machinery. In 2016, a rental contract for a distribution center was terminated. In conjunction with this, the distribution center was acquired for SEK 29m.

G3. CONTINGENT LIABILITIES AND PLEDGED ASSETS

AP ACCOUNTING PRINCIPLES

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

Contingent liabilities

SEKm	2017	2016	2015
Guarantees for			
associates	5	8	9
customers and others	43	39	38
Tax disputes	–	–	1,302[1)]
Other contingent liabilities[2)]	294	214	243
Total	**342**	**261**	**1,592**

1) Contingent liabilities for tax in 2015 mainly relate to one tax dispute in Sweden where the Tax Agency had decided on additional taxes and tax surcharges for the years 2008 to 2012 of approximately SEK 1,188m, including interest. The dispute pertained to interest expenses on loans in a Group company that arose in connection with the move of operations to Sweden in 2004. A provision was made in 2016 and this obligation was subsequently settled.

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

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

Pledged assets

SEKm	Pledged assets related to financial liabilities	Other	Total 2017	Total 2016	Total 2015
Real estate mortgages	65	–	65	7	7
Chattel mortgages	31	–	31	55	52
Other	64	186	250	130	134
Total	**160**	**186**	**346**	**192**	**193**

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

G4. TRANSACTIONS WITH RELATED PARTIES

Up until the split of SCA into two listed companies, Essity had a number of transactions with SCA units, both the former Forest Products business areas and the Parent Company Svenska Cellulosa Aktiebolaget SCA. These transactions and dealings are outlined in the table below for all fiscal years. In relation to remuneration of senior executives, refer to Note C3 Remuneration of senior executives on page 117 and for disclosures regarding transactions with associates, joint ventures and joint operations in Notes F3 Joint ventures and associates on page 136 and F4 Joint operations on page 138.

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

The most significant dealing during the presented fiscal years relates to the lending that SCA Hygiene has conducted via the internal bank to Forest Products, which is classified as current financial receivables, Group companies. Transactions in the form of lending and reallocation of net debt have been classified as transactions with shareholders in equity, refer to Note E8 Equity on page 132. The acquisition by Essity Aktiebolag (publ) on December 30, 2016 of the companies and operations that constitute the Tissue and Personal Care operating segments as well as SCA's internal bank is the reason for the major change in internal financial receivables and transactions with shareholders in equity in 2016.

In conjunction with the transfer outlined above, Essity Aktiebolag (publ) assumed the majority of the external financing that existed in SCA. The remaining financial dealings between Essity and SCA were settled in conjunction with the split of the Group into two listed companies on June 15, 2017.

Transactions and dealings with Group companies

SEKm	2017	2016	2015
Sales	–	–	–
Purchases	214	511	482
Other income	–	56	57
Financial income	70	108	132
Financial expenses	–9	–2	–2
Non-current receivables, Group companies	–	–	39
Non-current financial receivables, Group companies	–	3	3
Current receivables, Group companies	–	57	166
Of which, trade receivables	–	18	79
Of which, currency derivatives	–	33	10
Of which, energy derivatives	–	6	77
Current financial receivables, Group companies	–	1,433	12,207
Non-current liabilities, Group companies	–	48	–
Of which, currency derivatives	–	12	–
Of which, energy derivatives	–	36	–
Current liabilities, Group companies	–	259	341
Of which, trade payables	–	100	106
Of which, currency derivatives	–	64	29
Of which, energy derivatives	–	58	3
Of which, other current liabilities	–	37	203
Current financial liabilities, Group companies	–	485	852

Financial statements, Parent Company

Income statement IS

SEKm	Note	2017	2016
Administrative expenses		–933	0
Other operating income		367	–
Operating profit/loss	PC1	**–566**	**0**
Financial items	PC9		
Result from participations in subsidiaries		2,737	–225
Interest income and similar profit items		491	16
Interest expenses and similar loss items		–981	–35
Total financial items		**2,247**	**–244**
Profit/loss after financial items		1,681	–244
Appropriations	PC3	–1	–
Tax on profit for the period	PC3	816	230
Profit/loss for the period		**2,496**	**–14**

Statement of comprehensive income

SEKm	2017	2016
Profit/loss for the period	**2,496**	**–14**
Other comprehensive income	–	–
Total comprehensive income/loss	**2,496**	**–14**

Cash flow statement CF

SEKm	2017	2016
Operating activities		
Profit/loss after financial items	1,681	–244
Adjustment for non-cash items T:1	274	803
Paid tax	–4	–
Cash flow from operating activities before changes in working capital	**1,951**	**559**
Change in operating receivables	–47,654	–46
Change in operating liabilities[1]	47,818	493
Cash flow from operating activities	**2,115**	**1,006**
Investing activities		
Acquisition of subsidiaries	–14	–167,601
Divestment of subsidiaries, gain from merger	5	–
Acquisition of fixed assets	0	–6
Cash flow from investing activities	**–9**	**–167,607**
Financing activities		
Loans raised	22,006	91,601
Amortization of debt	–24,710	–
Capital contribution received	598	75,000
Cash flow from financing activities	**–2,106**	**166,601**
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	2017	2016
Depreciation/amortization of fixed assets	2	–
Change in accrued items	255	–15
Impairment of shares in subsidiaries	5	–
Change in provisions	12	818
Total	**274**	**803**

1) Dealings of the Parent Company with the Swedish subsidiaries relating to tax are recognized as Change in operating receivables or Change in operating liabilities, respectively.
2) The company's current account is a sub-account and is recognized in the balance sheet as liabilities to Group companies.

Supplementary disclosures

Interest and dividends paid and received	2017	2016
Dividends received	4,245	–
Group contribution received	334	–
Group contribution paid[3]	–225	–
Interest paid	–433	–100
Interest received	164	119
Total	**4,085**	**19**

3) The comparative figure for 2016 has been adjusted compared with the 2016 Annual Report for SCA Hygiene AB.

Change in liabilities attributable to financing activities

SEKm	Value, January 1	Cash flow	Translation difference	Value, December 31
Non-current interest-bearing liabilities	23,006	17,560	1,132	41,698
Current interest-bearing liabilities	–	4,446	–	4,446
Current liabilities to subsidiaries	68,205	–24,241	–	43,964
Current receivables from subsidiaries	–	–469	–	–469
Total	**91,211**	**–2,704**	**1,132**	**89,639**

Balance sheet BS

SEKm	Note	2017	2016
Assets			
Fixed assets			
Capitalized development costs		0	0
Intangible fixed assets	PC4	**0**	**0**
Machinery and equipment		5	7
Tangible fixed assets	PC5	**5**	**7**
Participations	PC6	167,614	167,601
Receivables from subsidiaries	PC7	435	–
Other non-current receivables		51	21
Deferred tax assets	PC3	1,046	230
Financial fixed assets		**169,146**	**167,852**
Total fixed assets		**169,151**	**167,859**
Current assets			
Receivables from subsidiaries	PC7	48,770	103
Current tax assets	PC3	4	–
Other current receivables	PC8	160	46
Total current assets		**48,934**	**149**
Total assets		**218,085**	**168,008**
Equity, provisions and liabilities			
Equity	PC11		
Share capital		2,350	0
Statutory reserve		0	0
Total restricted equity		**2,350**	**0**
Retained earnings		73,239	75,000
Profit/loss for the period		2,496	–14
Total non-restricted equity		**75,735**	**74,986**
Total equity		**78,085**	**74,986**
Untaxed reserves	PC3	**1**	**–**
Provisions			
Provisions for pensions	PC2	878	839
Other provisions		3	–
Total provisions		**881**	**839**
Non-current liabilities			
Liabilities to subsidiaries	PC7	12	–
Non-current interest-bearing liabilities	PC9	41,697	23,006
Total non-current liabilities		**41,709**	**23,006**
Current liabilities			
Liabilities to subsidiaries	PC7	92,461	68,891
Current interest-bearing liabilities	PC9	4,446	–
Accounts payables		30	4
Other current liabilities	PC10	472	282
Total current liabilities		**97,409**	**69,177**
Total equity, provisions and liabilities		**218,085**	**168,008**

Change in equity (Refer also to Note PC11)

SEKm	Share capital	Statutory reserve	Retained earnings and profit/loss for the period	Total equity
Equity at December 31, 2015	**0**	**0**	**0**	**0**
Loss for the period			– 14	– 14
New issue	0	–	–	0
Capital contribution received			75,000	75,000
Equity at December 31, 2016	**0**	**0**	**74,986**	**74,986**
Profit for the period			2,496	2,496
Bonus issue	2,350	–	– 2,350	0
Gain from merger			5	5
Capital contribution received			598	598
Equity at December 31, 2017	**2,350**	**0**	**75,735**	**78,085**

PC. PARENT COMPANY NOTES

PC1. OPERATING PROFIT/LOSS

Operating loss by type of cost

SEKm		2017	2016
Other operating income		367	–
Other external costs		– 597	0
Personnel and Board costs		– 334	–
Amortization of capitalized development costs	PC4	0	–
Depreciation of tangible fixed assets	PC5	– 2	–
IS **Total**		**–566**	**0**

The item "Other external costs" includes consultancy fees, travel expenses, leasing expenses, management costs, and so forth. The company was dormant for much of 2016.

AUDITING EXPENSES

Remuneration to auditors can be specified as follows:

SEKm	2017	2016
EY		
Audit assignments	– 12	–
Auditing activities other than the audit assignment	– 1	–
Tax consultancy services	–	–
Other assignments	–	–
Total	**–13**	**–**

Auditing expenses in 2016 were charged to Svenska Cellulosa Aktiebolaget SCA.

Leasing

AP ACCOUNTING PRINCIPLES

The company recognizes all leases as operating leases.

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

SEKm	2017	2016
Within 1 year	24	24
Between 2 and 5 years	29	50
Later than 5 years	–	–
Total	**53**	**74**

Cost for the period for leasing of assets amounted to SEK –25m (–). Leased assets comprise means of transportation, office premises and technical equipment. On December 31, 2016, the company assumed all of Svenska Cellulosa Aktiebolaget SCA's outstanding leasing contracts.

PC2. PERSONNEL AND BOARD COSTS

Salaries and remuneration

SEKm	2017	2016
Board of Directors[1], President, Executive Vice Presidents and senior executives (5 (6))	– 67	–
of which variable remuneration	– 28	–
Other employees	– 134	–
Total	**– 201**	**–**

1) Board fees decided by the Annual General Meeting amounted to SEK –9m (–). For further information, see Notes C1–C4. The majority of the employment contracts in Svenska Cellulosa Aktiebolaget SCA were transferred to the company on January 1, 2017.

Social security costs

SEKm	2017	2016
Total social security costs	– 124	–
of which pension costs[2]	– 61	–

2) Of the Parent Company's pension costs, SEK –16m (–) 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 51m (–).

Pension costs

SEKm	2017	2016
Self-administered pension plans		
Costs excluding interest expense	– 49	–
Interest expense (recognized in personnel costs)	– 6	–
Sub-total	**– 55**	**–**
Retirement through insurance		
Insurance premiums	– 18	–
Other	32	–
Sub-total	**– 41**	**–**
Policyholder tax	0	–
Special payroll tax on pension costs	– 17	–
Cost of credit insurance, etc.	– 3	–
Pension costs for the period	**– 61**	**–**

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK –2m (–). Premiums for 2018 are expected to amount to SEK 2m, see also Provisions for pensions in this note. Personnel costs also include other personnel costs in the amount of SEK –8m (–).

Average number of employees

	2017	2016
Sweden	116	–
of whom women, %	49	–

Breakdown of employees by age groups, %

2017	21–30 yrs	31–40 yrs	41–50 yrs	51–60 yrs	61– yrs
	4	23	37	27	9

Women comprised 46% (56) of Board members and 36% (36) of senior executives.

PC2. PERSONNEL AND BOARD COSTS, CONT.

Provisions for pensions

AP ACCOUNTING PRINCIPLES

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

PRI Pensions

Pension liabilities pertaining to PRI pensions have been secured through a common Swedish Essity pension fund. The market value of the Parent Company's portion of the foundation's assets at December 31, 2017 amounted to SEK 151m (127). In the past two years, no compensation has been received. The capital value of the pension obligations at December 31, 2017 amounted to SEK 134m (125). Pension payments of SEK –6m (–) were made in 2017. In 2017, the assets exceeded pension obligations by SEK 17m (2). The amount in parentheses relates to the share of Svenska Cellulosa Aktiebolaget SCA's PRI pensions that were formerly transferred to Essity Aktiebolag in 2017.

Other pension obligations

The Group's Note C3 Remuneration of senior executives 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	2017	2016
Value, January 1	**839**	**–**
Compensation received for assumed pension obligations	21	839
Compensation paid for transferred pension obligations	–	–
Costs excluding interest expense	49	–
Interest expense (recognized in personnel costs)	6	–
Payment of pensions	–37	–
BS Value, December 31	**878**	**839**

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% (0.8). The defined benefit obligations are calculated based on salary levels valid on the respective balance sheet dates. All of the company's pension obligations were transferred to Svenska Cellulosa Aktiebolaget SCA on December 31, 2016. The pension obligations were formerly transferred when the County Administrative Board granted its approval in 2017. Next year's expected payments for the above defined benefit pension plans amount to SEK 42m. Part of the pension obligations are covered by capital redemption policies. The capital redemption policies are reported as other non-current receivables in the balance sheet.

PC3. 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	2017	2016
Deferred tax	– 816	–230
Current tax	–	–
IS Total	**– 816**	**–230**

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.

	2017		2016	
Reconciliation	**SEKm**	**%**	**SEKm**	**%**
IS Profit/loss before tax	1,680		– 244	
IS Tax expense/income	–816	–48.5	– 230	– 94.2
Expected tax	370	22.0	– 54	– 22.0
Difference	**–1,186**	**–70.5**	**–176**	**–72.2**
The difference is due to:				
Taxes related to prior periods	–16	– 0.9	–	0.0
Non-taxable dividends from subsidiaries	– 934	– 55.6	–	0.0
Non-taxable Group contributions from subsidiaries[1)]	– 529	– 31.5	– 175	–71.7
Non-deductible Group contributions to subsidiaries[1)]	13	0.8	–	0.0
Other non-taxable/non-deductible items	280	16.7	– 1	– 0.5
Total	**–1,186**	**–70.5**	**–176**	**–72.2**

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

The Parent Company participates in the Group's tax pooling arrangement and pays the majority of the Group's total Swedish taxes. These are recognized in profit and loss as Group contributions paid and received. The net of given and received Group contributions per subsidiary amounts to 22% and is the respective subsidiary's share of the tax cost for the Group.

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

SEKm	2017	2016
Value, January 1	**–**	**–**
Current tax expense	–	–
Paid tax	– 4	–
BS Value, December 31	**–4**	**–**

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

SEKm	2017	2016
Changes in temporary differences	– 800	–230
Adjustments for prior periods	– 16	0
Total	**– 816**	**–230**

Provisions for taxes

SEKm	Value, January 1	Deferred tax income	Value, December 31
Provisions for pensions	– 176	– 14	– 190
Tax loss carryforwards	0	– 1,016	– 1,016
Other	– 54	214	160
BS Total	**–230**	**– 816**	**–1,046**

Appropriations and untaxed reserves

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

PC4. INTANGIBLE FIXED ASSETS

Capitalized development costs

SEKm	2017	2016
Accumulated costs	0	–
Accumulated amortization	0	–
Residual value according to plan	**0**	**0**
Value, January 1	**0**	**–**
Investments	–	0
Sales and disposals	–	–
Amortization for the period	0	–
BS Value, December 31	**0**	**0**

PC5. TANGIBLE FIXED ASSETS

AP ACCOUNTING PRINCIPLES

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

Tangible fixed assets

	Equipment	
SEKm	**2017**	**2016**
Accumulated costs	7	7
Accumulated depreciation	–2	0
Residual value according to plan	**5**	**7**
Value, January 1	**7**	**–**
Investments	0	7
Sales and disposals	–	–
Depreciation for the period	–2	–
BS Value, December 31	**5**	**7**

PC6. PARTICIPATIONS

AP ACCOUNTING PRINCIPLES

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

Participations in Group companies

	Subsidiaries	
SEKm	**2017**	**2016**
Accumulated costs	168,883	167,601
Accumulated impairment	–1,269	–
Carrying amount	**167,614**	**167,601**
Value, January 1	**167,601**	**0**
Investments	48,882	–167,601
Divestments	–47,600	–
Impairment for the period	–1,269	–
BS TPC6:1 Value, December 31	**167,614**	**167,601**

The shares in Essity Försäkringsaktiebolag were conveyed at carrying amount as part of the transfer of business that took place on December 30, 2016 from Svenska Cellulosa Aktiebolaget SCA to Essity Aktiebolag but were recognized on December 31, 2016 in Svenska Cellulosa Aktiebolaget SCA's balance sheet because the holding, from a civil judicial perspective, required the approval of the Swedish Financial Supervisory Authority (Finansinspektionen) for the transfer to occur. During 2017, the Authority granted its approval for the change of ownership and the holding is recognized under capital expenditures in 2017. During the year, a capital contribution amounting to SEK 1,269m was also given to SCA Hedging AB. An impairment was recognized in the same amount. A capital contribution of SEK 47,599m was also made to Essity Group Holding BV. The wholly owned company SCA Research Aktiebolag was merged with its Parent Company Essity Aktiebolag in July 2017. The company has also reduced its holding in Essity Capital NV by SEK 47,598m by reducing its equity and repayment could be made.

TPC6:1 Essity Aktiebolag's holdings of shares and participations in subsidiaries, December 31, 2017

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOBOF	556047-8520	Stockholm, Sweden	1,000	100	0
Essity Försäkringsaktiebolag	516401-8540	Stockholm, Sweden	140,000	100	14
SCA Hedging AB	556666-8553	Stockholm, Sweden	1,000	100	0
Foreign subsidiaries:					
Essity Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	143,434
Essity Capital NV	0810.983.346	Diegem, Belgium	2,558,169	100	23,887
Essity Italy S.p.A	3318780966	Capannori, Italy	125,000	25	279
Total carrying amount of subsidiaries					**167,614**

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

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

PC7. RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Receivables from and liabilities to subsidiaries

SEKm	2017	2016
Fixed assets		
Other receivables	435	–
BS **Total**	**435**	**–**
Current assets		
Interest-bearing receivables	469	–
Other receivables	48,301	103
BS **Total**	**48,770**	**103**
Non-current liabilities		
Other liabilities	12	–
BS **Total**	**12**	–
Current liabilities		
Interest-bearing liabilities	43,964	68,205
Other liabilities	48,497	686
BS **Total**	**92,461**	**68,891**

The distribution between interest-bearing liabilities and other liabilities has been adjusted for items affecting comparability compared with the 2016 Annual Report for SCA Hygiene AB.

PC8. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2017	2016
TPC8:1 Prepaid expenses and accrued income	19	45
Other receivables	141	1
BS **Total**	**160**	**46**
TPC8:1 **Prepaid expenses and accrued income**		
Prepaid lease of premises	7	7
Prepaid financial expenses	1	30
Prepaid insurance premiums	1	–
Other items	10	8
Total	**19**	**45**

PC9. FINANCIAL INSTRUMENTS

Financial items

SEKm	2017	2016
Result from participations in subsidiaries		
Dividends from subsidiaries	4,245	–
Group contributions received from subsidiaries	439	–
Group contributions paid to subsidiaries/Parent Company	–678	–225
Impairment of shares in subsidiaries	–1,269	–
Interest income and similar profit items		
Interest income, external	0	–
Interest income, subsidiaries	491	16
Interest expenses and similar loss items		
Interest expenses, external	–442	–16
Interest expenses, subsidiaries	–470	–13
Other financial expenses[1]	–69	–6
IS **Total**	**2,247**	**–244**

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

Interest-bearing liabilities

Non-current interest-bearing liabilities

	Carrying amount		Fair value	
SEKm	2017	2016	2017	2016
Bond issues	35,288	18,204	35,670	18,828
Other non-current loans with a term > 1 yr < 5 yrs	4,444	1,505	4,419	1,499
Other non-current loans with a term > 5 yrs	1,965	3,297	1,823	3,207
BS **Total**	**41,697**	**23,006**	**41,912**	**23,534**

Current interest-bearing liabilities

	Carrying amount		Fair value	
SEKm	2017	2016	2017	2016
Bond issues	2,946	–	2,946	–
Loans with maturities of less than one year	1,500	–	1,500	–
BS **Total**	**4,446**	**–**	**4,446**	**–**

The counterparty for all outstanding bond issues within Svenska Cellulosa Aktiebolaget SCA was changed to Essity Aktiebolag in 2016. In 2017, the company also assumed all other non-current loans recognized in Svenska Cellulosa Aktiebolaget SCA's balance sheet on December 31, 2016.

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm
Notes SEK 600m	2019	602	604
Notes SEK 900m	2019	899	910
Green bond SEK 1,500m	2019	1,499	1,521
Notes EUR 300m	2020	2,947	2,971
Notes EUR 500m	2021	4,895	4,895
Notes EUR 600m	2022	5,866	5,872
Notes EUR 500m	2023	4,884	5,265
Notes EUR 600m	2024	5,872	5,868
Notes EUR 300m	2025	2,944	2,888
Notes EUR 500m	2027	4,880	4,876
Total		**35,288**	**35,670**

Financial instruments by category

AP ACCOUNTING PRINCIPLES

In accordance with Paragraph 3 of RFR 2, the Parent Company has chosen not to apply IAS 39. The Parent Company recognizes financial fixed assets at cost less any impairment and financial current assets according to the lower of cost or market rule. For derivatives used for hedging purposes, recognition is determined by the hedged item. Currency derivatives used to hedge foreign receivables and liabilities are remeasured at the closing day rate to match the currency remeasurement in the receivable/liability. Interest rate derivatives used to hedge interest rate exposure in financial receivables or liabilities are recognized at fair value as of the 2017 fiscal year. The accounting principles for financial instruments are applied for the items below. The financial instruments in the Parent Company are classified as loans and trade receivables for assets, and other financial liabilities measured at amortized cost for liabilities. No other categories have been utilized over the past two years. These balance sheet items are not fully reconcilable since they may include items that are not financial instruments.

Loan and trade receivables

SEKm	2017	2016
Assets		
Financial fixed assets		
Interest-bearing receivables	51	21
Receivables from subsidiaries[1]	435	–
Current assets		
Receivables from subsidiaries[1]	1,440	103
Other current receivables	1	–
Cash and bank balances	–	–
Total	**1,927**	**124**

Financial liabilities measured at amortized cost

SEKm	2017	2016
Liabilities		
Non-current liabilities		
Liabilities to subsidiaries[1]	12	–
Interest-bearing liabilities	41,697	23,006
Current liabilities		
Interest-bearing liabilities	4,446	–
Liabilities to subsidiaries[1]	44,435	68,549
Accounts payables	29	4
Other current liabilities	284	135
Total	**90,903**	**91,694**

[1] The lines Receivables from subsidiaries include the carrying amount of financial derivatives in respect of subsidiaries of SEK 1,195m (103). The lines Liabilities to subsidiaries include the carrying amount of financial derivatives in respect of subsidiaries of SEK 408m (342). The net fair value of these derivatives amounts to SEK 787m (446). The nominal value of the derivatives is SEK 105,056m (31,560).

PC10. OTHER CURRENT LIABILITIES

Other current liabilities

SEKm	2017	2016
TPC10:1 Accrued expenses and prepaid income	440	280
Other operating liabilities	32	2
BS Total	**472**	**282**

TPC10:1 Accrued expenses and prepaid income

SEKm	2017	2016
Accrued interest expenses	284	135
Accrued social security costs	55	39
Accrued vacation pay liability	15	18
Other liabilities to personnel	64	74
Other items	22	14
Total	**440**	**280**

PC11. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented on page 144. 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
2017	**Number of shares, December 31, 2017**	**702,342,489**	**2,350.4**	**0.5**

The quotient value of the company's shares amounts to SEK 3.35 (100).

PC12. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities

SEKm	2017	2016
Guarantees for subsidiaries	53,489	–
Other contingent liabilities	94	–
Total	**53,583**	**–**

Pledged assets

SEKm	2017	2016
Chattel mortgages	–	–
Other	184	–
Total	**184**	**–**

PC13. ADOPTION OF THE ANNUAL ACCOUNTS

The annual accounts are subject to adoption by Essity Aktiebolag's Annual General Meeting and will be presented for approval at the Annual General Meeting on April 12, 2018.

PC14. EVENTS AFTER THE BALANCE SHEET DATE

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

H. NOTES TO NON-FINANCIAL INFORMATION

H1. GENERAL ACCOUNTING PRINCIPLES

Reporting principles

The environmental and social data reported pertains to the 2017 calendar year. The figures included comply with relevant reporting and consolidation principles in accordance with the principles in the financial statements. Essity uses the global Greenhouse Gas Protocol standard for measuring, managing and reporting carbon dioxide data. The figures cover the Essity Group's wholly owned subsidiaries and subsidiaries in which Essity owns at least 50% of the company. If Essity's ownership of a company is 50% or more, the entire company is included.

An exception is made in the case of the Chinese company Vinda, in which Essity owns 51.4% of the votes and which was consolidated as a subsidiary in 2014. The data from Vinda includes the number of employees and some health and safety and environmental data. Vinda publishes an Environmental, Social and Governance (ESG) report, which is available at www.vinda.com.

Some social data from joint ventures is not included. Note H2 Code of Conduct data is one example, due to the fact that Essity and its joint ventures do not share a common code. Aside from total employee figures and the personnel turnover rate in Note H3, information from joint-venture companies is not reported. The Colombian Familia Group is Essity's largest joint-venture company (refer to Note F1). The Familia Group reports in accordance with the GRI G4 guidelines. For more information, visit www.grupofamilia.com.co.

Newly acquired businesses are integrated when they have been part of the Group for one calendar year. The historic environmental and social data of newly acquired units is included to the greatest possible extent in order to increase comparability (also refer to the section on comparability below). The data from divested units is excluded in its entirety as of the divestment date. Historic data for discontinued units is retained. Essity completed the acquisition of BSN medical in April 2017. This report includes health and safety data and some social data from BSN medical. BSN medical's operations consume less than 1% of the resources used by Essity.

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

Data collection

Data provided in the report is compiled through various systems, primarily the Group's financial consolidation system, Resource Management System (RMS) and Essity's system for collection of social data. General tables for environmental and social data can be found in the non-financial multi-year summary on pages 170–171.

Environmental data

The RMS encompasses more than 58 production sites, covering virtually the entire company's environmental impact and resource utilization from production. It includes data from manufacturing operations but not from corporate staffs, offices or joint ventures. Data from stand-alone tissue converting sites is included in the main mother reel supplying site.

Each unit reports the following data to the system:

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

The data is reported both internally and externally at the mill level, business unit level and for the Group as a whole.

Conversion factors used:

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

Social, Occupational Health & Safety (OHS) and Human Resource (HR) data

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

Comparability

As this is Essity's first report, figures used for the preceding year are available in previous publications of SCA's Sustainability Reports. This information is adjusted to make Essity's figures comparable. This applies for example to most of the GRI indicators and data encompassed by Essity's sustainability targets, such as CO_2 and health and safety. These figures are reported in parenthesis.

The results of the Group's CO_2 target and water target are adjusted each year in relation to production levels. Other environmental data is reported in absolute figures.

GRI reporting

This is the first year that Essity has published an integrated Annual and Sustainability Report and has reported sustainability information in line with Global Reporting Initiative's (GRI) guidelines according to 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 reports in accordance with all GRI indicators and on a level identified as material. 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. In addition, Essity reports a number of general indicators according to GRI Standards: Comprehensive option as we believe this may simplify the information in the report. Any omissions or incomplete data are commented on directly in the GRI index. The entire report has been reviewed by EY. The report is aimed at specialist audiences with an interest in sustainability performance, including analysts, investors and NGOs. More detailed information about Essity's work on environmental and social issues is available at www.essity.com.

The UN Guiding principles

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

H2. CODE OF CONDUCT

Essity aims to offer all employees regular training in the Code of Conduct.

During 2017, 93% of all new employees had received training in Essity's Code of Conduct and 2,200 (90%) of Essity's top and middle managers participated in Essity's Ethical Dilemma training.

Essity has developed an anti-corruption e-learning course, translated into 21 languages, which has been included in onboarding programs. In 2017, just over 200 new employees completed the training program.

In 2017, just over 200 employees completed the EU competition e-learning course or the US anti-trust e-learning course.

Sedex

In the 2017 Sedex assessment, all of Essity's main facilities received a low to medium risk classification and no facility was classified as high risk.

Reported breaches

In 2017, there were a total of 63 (71) reported cases of potential breaches of laws or of the Code of Conduct to the whistleblower function (including the internal channel for reporting breaches of the Code of Conduct). Of the 63 suspected breaches reported, five were still under investigation at the end of the year. Among the reported complaints, three related to the suspicion of corruption. All three investigations have been closed and in one case corruption was verified relating to a supplier.

Among the other reported cases of potential breaches, 30 related to HR, such as discrimination and harassment, and the remaining 30 concerned various other company policies. A total of 12 employees were dismissed. No one was dismissed for verified corruption.

Internal audits conducted of the Code of Conduct

In 2017, Code of Conduct audits were conducted at two sites in Mexico and one site each in Russia, Brazil, the US, Poland and Austria. Generally, employees are satisfied and positive to Essity as a company and employer. In units acquired from BSN medical in Mexico and Brazil, there were a number of aspects to improve to raise levels to the normal Essity standard, including the low or complete lack of any awareness of BSN medical's or Essity's Code of Conduct among employees. An action program is in place and will be implemented in 2018. The internal audit noted that other plants need to improve follow-up of overtime and evacuation drills. All plants have action programs in place.

Audits conducted of business ethics

In 2017, business ethics audits were conducted in Brazil, Finland and Romania. Most of the criteria were in place in Finland and Romania, though there was a need to improve the quality of performance reviews and follow-up of who had completed courses in the Code of Conduct and other policy documents. The audit in Brazil related to the acquired BSN medical unit, which has several areas that need to be improved to reach Essity's standard. These include staff that require further training in the Code of Conduct and other policy documents, the introduction of performance reviews and the use of encryption for e-mails. An action plan is in place and will be implemented in 2018.

Ongoing anti-trust cases

In December 2017, the Chilean competition authority concluded its investigation of the company's tissue operations in Chile with a decision to fine the company about USD 12.2m. The company has appealed the decision.

Andean Community's investigation of Productos Familia S.A.'s sales in Ecuador and Colombia continued during the year and is not yet concluded. This is also the case for the ongoing investigation into the company's tissue operations in Hungary.

H3. EMPLOYEES

Essity comprises on average 46,385 (42,149, 39,951) employees in some 50 countries, of whom 34% (32, 31) are women. The employee turnover rate is 14% (13, 11). The majority of Essity's employees are permanent/full-time employees and a minor share, about 5%, are temporary/part-time employees.

Individual development

In 2017, 92% (90, 96) of white-collar employees participated in performance management reviews. The corresponding number for blue-collar employees is 80% (85, 85).

In all the reporting countries, Essity pays above the legislated minimum salaries. France, Germany and Sweden are three of the wholly owned Essity subsidiaries with the most employees. In France, female managers' salaries ranged between 96% and 109% of men's. For women on non-managerial levels, the corresponding figures were 105–114%. In Germany, female managers' salaries ranged between 86% and 89% of men's. For women on non-managerial levels, the corresponding figures were 99% and 129%. In Sweden, female managers' salaries ranged between 86% and 96% of men's. For women on non-managerial levels, the corresponding figures were 96% and 104%.

Training

In 2017, 127 people participated in the mandatory one-day onboarding program for all newly appointed managers. 312 participated in Core 1, a six-day program to develop managers who have been in their role for six to 12 months. 80 managers participated in Core 2, a leadership program to develop people's capabilities to lead in a complex environment, engage people and drive change. Creating Value and Driving Business Performance are two courses with the aim to further strengthen participants' capabilities in strategic leadership areas. In 2017, 65 people participated in these programs.

Other programs include the Hygiene Academy, which offers branding training, and the Digital Academy. Essity also has sustainability training programs in place that focus on innovations, messages and communication. The aim to improve the understanding of sustainability's impact on products and services, customers and consumers. In total, 1,415 people participated in 47 different training sessions in the programs.

The average number of training hours per employee was 17.

Diversity

In 2017, the proportion of women among Essity's top management was 36% (33, 35) Among senior management, the proportion of women was 27% (25, 24) and 23% (27, 29) among senior/middle management.

Senior management comprised 18 (21, 28) different nationalities and the corresponding figure was 36 (32, 42) for senior/middle management. Encouraging greater diversity is part of Essity's leadership platform and succession planning.

Leveraging a strong winning culture

Essity carries out All-Employee Surveys on a regular basis for all employees. The latest survey was conducted in 2015, and received a response rate of 88% (86, for year 2013) of the workforce. The next All-Employee survey will take place in 2018.

The survey covers a total of 47 aspects in nine dimensions. The results are expressed as indexes for leadership, innovation, customer orientation and engagement, as well as an overall Essity index. The Essity index for 2015 was 72 (70, for year 2013) on a scale 0–100.

All managers prepare action plans together with their employees based on the outcome of the survey. The next employee survey will be carried out in 2018.

H3. EMPLOYEES, CONT.

Employee relations

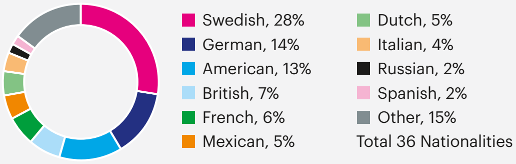
Union involvement varies among Essity's countries of operation, but on average 61% (54, 58) of Essity's employees are covered by collective bargaining agreements.

In addition, there are health and safety committees on which representatives of about 86% (87) of the workforce serve.

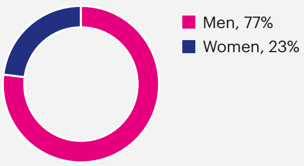
WASH pledge

As a hygiene and health company, Essity wants its employees to enjoy first-class standards when it comes to workplace hygiene. Essity reported its WASH (Water, Sanitation and Hygiene) Pledge for the first time in 2016. The pledge is an initiative linked to the World Business Council for Sustainable Development (WBCSD). By signing the pledge, Essity undertakes to comply with a prescribed workplace WASH standard for its wholly owned units within three years. This includes areas such as workplace sanitation and health issues, as well as training to improve employees' awareness. By the end of 2017, 79% (61) of Essity's wholly owned hygiene products' production sites complied with the standard.

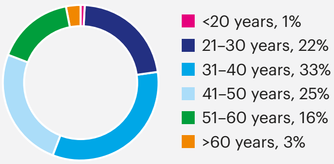
Senior and middle management by nationality 2017



Senior and middle management by gender 2017



Age distribution 2017



H4. HEALTH AND SAFETY

Essity's Group target is to decrease the accident frequency rate by 50% in the 2014–2020 period. In 2017, the accident frequency rate declined by 6% year-on-year to 3.8 (4.1, 5.5, 6.2) and 38% compared with the base year of 2014. Unfortunately, a contractor was fatally injured during 2017 in a fire at our factory in Svetogorsk in Russia, which confirms the need for a relentless focus on safety activities.

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.
- Frequency Rate (FR): LTA / 1,000,000 hours worked.
- Incidence Rate (IR): LTA / 200,000 hours worked.

HEALTH AND SAFETY, KEY FIGURES[1)]

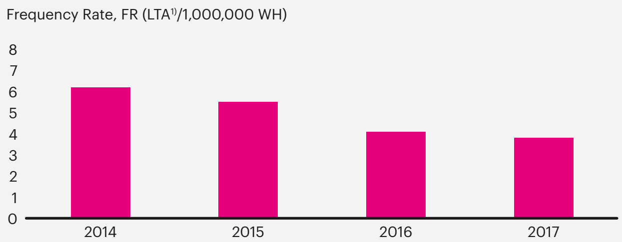
	2017	2016	2015	2014
Average headcount	27,127	24,949	24,207	23,808
Lost Time Accidents, LTA	210	207	281	311
Contractor Lost Time Accidents, CLTA	34	33	33	38
Days Lost due to Accidents, DLA	4,877	5,201	6,378	5,723
Accident Severity Rate, ASR	23.2	25.1	22.7	18.4
Accident Frequency Rate, FR (LTA/1,000,000 WH)	3.8	4.1	5.5	6.2
Incident Rate, IR (LTA/200,000 WH)	0.8	0.8	1.1	1.2
Fatalities (employees)	0	1	0	0
Number of zero-accident sites	26	19	17	17
Number of sites included in reporting	85	72	70	68

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

Sickness absence

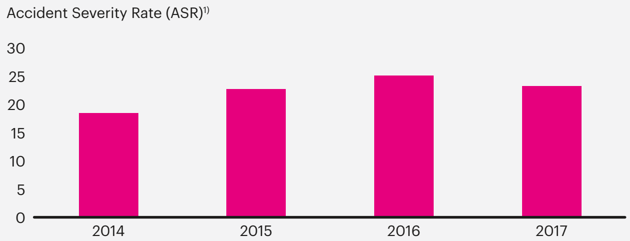
Using information supplied by 15,962 employees, average sickness absence in 2017 was 4.86%. The corresponding figures for 2016 and 2015 were 4.88% (16,258 employees) and 4.95% (16,367) respectively.

Accident Frequency Rate (FR)



1) Lost Time Accidents.

Accident Severity Rate (ASR)



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

H5. CUSTOMERS AND CONSUMERS

Complaints have remained at a stable and low level in recent years. For Personal Care products, the complaint frequency is lower than one in a million supplied products. In the Tissue operations, the corresponding figure is 2.9 per thousand tons.

Customer surveys

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

Essity conducts a systematic customer follow-up. This includes external reports, independent surveys and global systems for customer feedback.

Essity also offers expertise and support for the development of operations at such institutions as nursing homes, where Essity can make a difference and create value for its customers and users. Essity places high value on opportunities for direct customer contact.

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

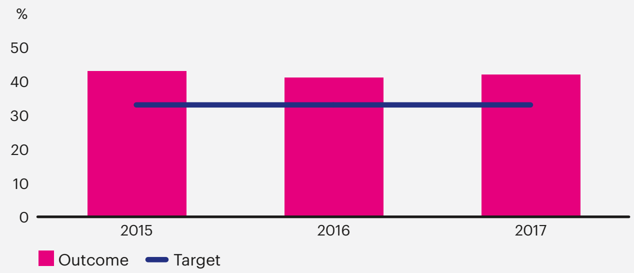
H6. INNOVATION

Essity has a Group target to provide social and/or environmental improvements on innovations launched. In 2017, we launched 41 innovations. 42% (41; 43) of Essity's innovations yielded social and/or environmental improvements. The aim is for at least one-third of all innovations to achieve these criteria each year.

People and nature innovations

Innovations that improve social and environmental performance also make financial sense. For Essity, such innovations are linked to an in-depth understanding of customers and consumers.

People and nature innovations



CARBON FOOTPRINT REDUCTION

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

[1] 2012–2016.
[2] 2011–2017.

H7. HYGIENE SOLUTIONS

Essity's aim is to make our knowledge about hygiene available to customers and consumers. In 2017, we educated more than 2.5 million people in health and hygiene. Most (86%) were children and teenagers who were educated in good hand hygiene and young girls about menstruation. Other target groups for this training were caregivers, doctors, staff at residential care facilities, parents and the immediate family to pensioners. Areas covered by the training sessions included hand hygiene, puberty and menstruation, incontinence, wound care and parental education.

H8. FIBER SOURCING

Essity's goal for fiber sourcing is that all fresh fiber in our products is to be FSC® or PEFC™ certified. At a minimum, the fiber must meet the requirements of the FSC standards for Controlled Wood. Goal fulfillment in 2017 was that 99.9% of all fresh fiber met the goal criteria.

Renewable raw materials (fresh fiber and recycled fiber) account for the largest share of the material used in an average Essity product. Synthetic materials are used in highly absorbent hygiene products to improve quality and function.

Essity's fiber use

In 2017, 5.9 million tons of fresh fiber and recovered fiber were delivered to Essity. Fresh fiber, 3.65 million tons, consists mainly of pulp (87%) and timber (12%). Packaging, mother reels and products from third parties account together for 1%.

Of the 2.12 million tons of recovered paper, 94% is used in tissue production. The remaining 6% comprises recovered fiber content in sourced packaging.

In 2017, 3.65 million tons of fresh fiber were delivered as timber, pulp, packaging, mother reels and products from a third party. 65% of the fiber was FSC/PEFC certified and nearly 35% fulfilled the FSC standards for Controlled Wood.

Fresh fiber

Pulp: 63% of the global pulp deliveries was FSC or PEFC certified and 36% fulfilled the FSC standards for Controlled Wood. The remaining 1% was from controlled suppliers and other certification systems.

Wood: 87% was FSC or PEFC certified and the remaining share fulfilled the FSC standards for Controlled Wood.

Packaging: 32% was FSC or PEFC certified and the remaining share came from controlled sources.

Mother reels: 16% was FSC/PEFC certified and the remaining share fulfilled the FSC standards for Controlled Wood.

Third-party supplied articles: More than one-third of Essity-branded wet wipes (60% third-party-supplied articles) were FSC certified. The fresh fiber in the remaining two-thirds came from FSC Controlled Wood sources or other controlled sources. 80% of the fiber in other outsourced products (40% of third-party-supplied articles) are from certified suppliers and 20% from a controlled and identifiable source.

Recovered fiber

The proportion of recovered fiber in our products varies between regions due to differences in consumer preferences and fiber supply and demand. The North American operations use almost only recovered fiber, while the proportion of recovered fiber is 68% in Latin America and 33% in Europe.

Supplier audit results

Among Essity's global pulp suppliers to wholly owned Essity companies, the ten largest accounted for more than 80% of the purchase cost for pulp. Essity audits its suppliers to verify their compliance with the Essity's sourcing policy for fiber and Essity's Global Supplier Standard. All pulp suppliers were assessed using a questionnaire about their continued compliance with the requirement for chain of custody certification and to update fiber and ecolabel information. All pulp suppliers demonstrated continued compliance with the requirements of Essity's Global Supplier Standard. During 2017, Essity's personnel visited five supplier plants to conduct compliance checks. In addition to these pulp supplier audits, Essity has provided support to some raw material suppliers where fiber may be part of the raw material (i.e. viscose in non-wovens) to help them achieve FSC chain of custody certification.

H9. ENERGY AND EMISSIONS TO AIR

Essity's Group target is to reduce CO_2 emissions from fossil fuels and from purchased electricity and heating by 20% by 2020, with 2005 as reference year.

CO_2 emissions declined at year-end 2017, in relation to the production level, by 17.9% compared with the reference year of 2005.

Energy utilization

Energy use includes purchased energy (heating, electricity and fuel) supplied to production units, energy generated from wood, liquor, bark, sludge and waste paper, and electricity generated on site. The energy data figures stated therefore include both a fuel component and an electricity component.

ESAVE

In 2010, Essity adopted a target for ESAVE: to reduce energy consumption per ton of product produced by 14% by 2020. In 2017, a number of ESAVE projects were implemented, resulting in a 0.4% (0.9) year-on-year reduction in energy used per ton of product produced. The accumulated energy savings in the 2010–2017 period amounted to 9.4%, corresponding to a 1.2 TWh reduction in energy consumption.

The EU Emissions Trading Scheme (ETS)

Essity had 24 mills and plants included under the ETS in 2017. Essity's operations have a deficit of emission allowances during the third phase of 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 2017 was about EUR 5.8 per ton and Essity purchased 240,000 emission rights.

Emissions

The company's total emissions are determined by fuel consumption, which in turn is determined by the level of production. Changes in production volumes over the past few years are measured in tons and cubic meters.

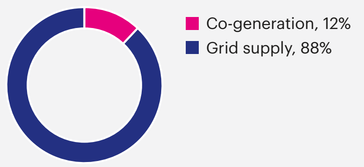
Air emissions comprise emissions from all combustion units at Essity's production sites, including fossil fuel and biofuel emissions and emissions from purchased thermal energy. When energy (primarily thermal energy and/or electricity) is supplied to an external facility, air emissions are reduced in relation to the energy amount delivered and the reduction is distributed among Essity's main products.

Three chemical compounds are measured and reported in relation to air emissions: NOX, SO_2 and fossil CO_2. Essity uses Group-wide established procedures and principles for calculating RMS data so as to create comparability.

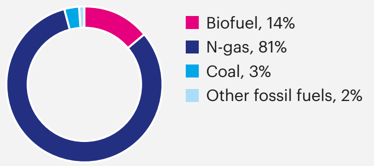
CO_2 emissions from Essity's use of fossil fuels corresponded to 1,554 ktons and purchased electricity to 1,351 ktons during the year.

Essity's specific (related to production) emissions (Scope 1 and 2) corresponded to 0.75 ktons (0.78; 0.74) CO_2 /ktons production in 2017.

Electricity consumption 2017

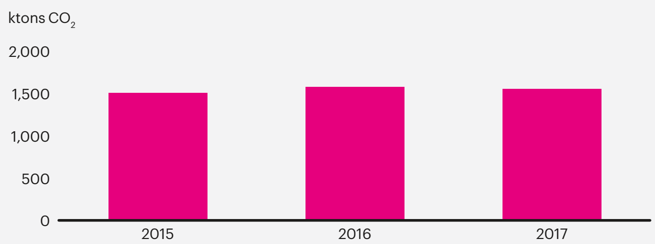


Distribution of fuel consumption 2017



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

Air emissions from fossil fuels



H10. WATER

Essity's Group water target is to reduce levels of suspended solids by 10% by 2020, with 2014 as reference year. Our tissue operations will also reduce water usage and organic content (BOD) by 10% by 2020, with 2014 as reference year.

In 2017, our plants surpassed the target and reduced suspended solids by 19.7%. Our tissue operations reduced water usage by 4.7% and the amount of organic content (BOD) by 25.4%.

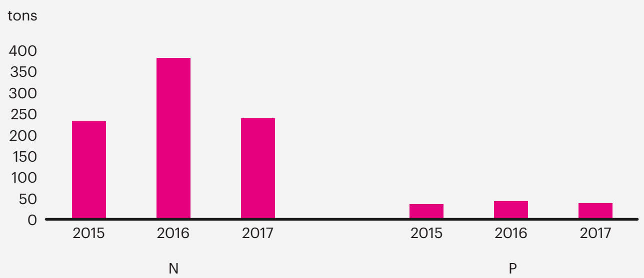
Usage and discharge of water

Most of the water consumed in the Group's is used to transport fibers during production processes and the remainder is mainly used as cooling water. 74% of the water used is drawn from surface sources. Essity's reporting of water usage states totals for surface water, groundwater and municipal water systems. Essity's effluent water is divided into cooling water and process water. Cooling water has simply been heated and is not contaminated in any way. The total volume of discharged process water is 72 Mm3. The water is treated using mechanical and biological treatment systems. The figures for 2017 refer to process water emissions.

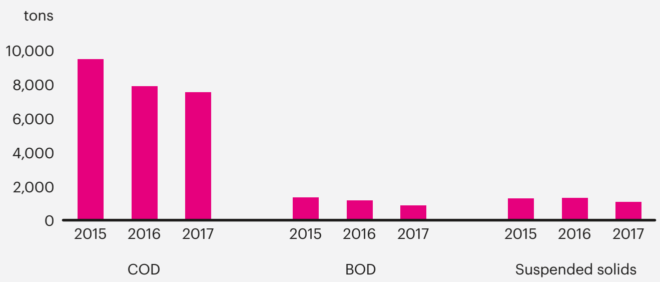
The emissions to water stated in the tables comprise COD, BOD, suspended solids, AOX, P and N. Methods of measuring differ in some respects.

In 2017, the Group used 104 million cubic meters of water in pulp and paper production.

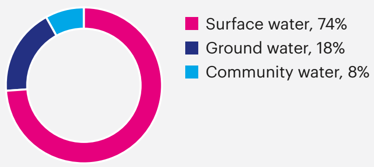
Water emissions, N, P



Water emissions, suspended solids



Distribution of water supply

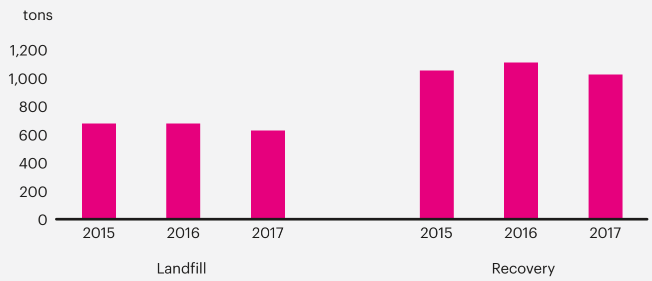


H11. WASTE

Essity's target for production waste is that materials and energy will be recovered from all waste from all production units by 2030. In 2017, Essity's production waste amounted to a total of 1.65 Mtons. In Essity's production process, waste is generated in the form of ash, sludge, organic waste and/or plastic. The production sites proactively work to reduce waste and to find alternative solutions for their waste. In 2017, a significant part (1.02 million tons) was recovered as raw materials for other industries, such as the construction industry, or as an energy source. The remainder was sent to landfill.

The solid waste reported by Essity is waste that is sent to landfill and recycled waste. Recycled waste refers to materials that can be used as raw materials in other industries, such as the cement, brick-making and construction industries. The main types of recycled waste are ash, sludge, organic waste and plastics. A very small proportion (0.16% or 2,600 tons) is hazardous waste, which is primarily waste oil, but also includes organic solvents, batteries and strip lights.

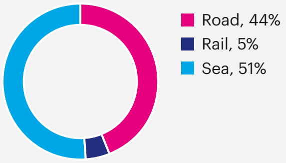
Distribution of solid waste



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 use of transportation is equivalent to 12.7 billion ton-kilometers (12, 14). 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 2017 amounted to 457,000 tons (517,000; 515,000). The difference in the estimated carbon emissions is partially due to differing calculation methods.

Distribution of transport usage



Essity's transport usage corresponds to 12.7 billion ton kilometers. Emissions from transportation of Essity's raw materials and products corresponded to 457,000 tons of CO_2 emissions.

H13. SUPPLY CHAIN MANAGEMENT

Essity's target for responsible sourcing is that we shall evaluate all of our supply streams from a risk perspective. By 2020, we aim to source 100% of our procurement spend from suppliers committed to the criteria specified in our Global Supplier Standard.

In 2017, 64% (43) of the procurement spend was sourced from suppliers who fulfil these criteria. The target for 2017 was 61%. Furthermore, Essity's target is to use established procedures to conduct risk evaluations of relevant sourcing categories, where the target is 53 sourcing categories by 2020. During 2017, 35 sourcing categories (66%) were evaluated, which was in line with the target for 2017.

Ethical audit results

During the year, Essity evaluated the outcome from 25 ethical supplier audits, of which 16 were carried out by SGS on Essity's behalf in India, China, Turkey, Saudi Arabia, Brazil, Russia and Mexico. In addition, nine ethical audits performed by another customer of the supplier were approved by Essity.

If critical findings are identified, Essity is informed within 24 hours. To date, this kind of reaction has been the result of excessive overtime, overtime not being paid at a premium, no evidence of fire drills being conducted in the last 12 months or insufficient or non-existing procedures for verifying workers' age upon recruitment. No agreements with global suppliers were terminated on the grounds of sustainability-related non-compliance in 2017.

Approximately 81% of the hygiene operations' supplier base for raw materials and products is located in Europe, 18% in the Americas and 1% in Asia/Middle East. Many of the global, strategic suppliers' production facilities located in Asia and Latin America belong to large multinational corporations based in Europe and the US, a conscious choice by Essity to reduce ethical risks within our supply chain.

Global and regional suppliers of raw materials and merchandise represent about 61% (50) of the hygiene operations' procurement spend. 22% (21) 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. An ethical audit of a supplier can also be triggered by other indicators, such as a low rating in Sedex, a low health and safety score in Essity's supplier qualification audit or the outcome from Essity's risk assessments. Sedex is an online database that enables suppliers to share information with their customers on their status in areas such as labor conditions, health and safety and business ethics. After 2017, we have a total of 481 supplier plants that share this type of data via Sedex.

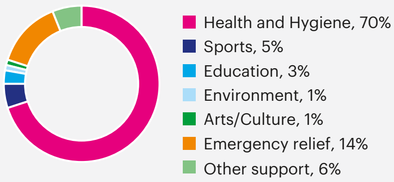
H14. COMMUNITY RELATIONS

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

In 2017, Essity invested approximately SEK 16m in just over 300 projects. Most of the projects were related to hygiene and health.

Essity's community relations instruction states that Essity shall be politically and religiously neutral. The company must not make payments or product donations to political parties or candidates, or their institutions, agencies or representatives, or religious institutions/organization or their representatives. Essity did not support any political or religious organizations or projects in 2017.

Community relations by focus area



PC15. PROPOSED DISPOSITION OF EARNINGS

ANNUAL ACCOUNTS 2017

Disposition of earnings in Essity Aktiebolag	
Non-restricted equity in the Parent Company:	
retained earnings	73,239,091,707
net profit for the year	2,495,963,709
Total	**75,735,055,416**
The Board of Directors and the President propose:	
to be distributed to shareholders, a dividend of SEK 5.75 per share	4,038,469,312
to be carried forward	71,696,586,104[1)]
Total	**75,735,055,416**

1) The company's equity would have been SEK 614,201,531 lower if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14 of the Swedish Annual Accounts Act.

The Board of Directors and President declare that the combined financial statements that comprise the consolidated financial statements for the 2017, 2016 and 2015 fiscal years have been prepared in accordance with the International Financial Reporting Standards adopted by the EU and that disclosures herein give a true and fair view of the Group's financial position and results of operations. The Parent Company's financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Board of Directors' Report provides a fair review of the Parent Company's and Group's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

February 21, 2018

Ewa Björling
Board member

Pär Boman
Chairman of the Board

Tina Elvingsson Engfors
Board member, appointed by the employees

Maija-Liisa Friman
Board member

Annemarie Gardshol
Board member

Magnus Groth
President, CEO and Board member

Johan Malmquist
Board member

Bert Nordberg
Board member

Louise Svanberg
Board member

Örjan Svensson
Board member, appointed by the employees

Lars Rebien Sørensen
Board member

Barbara Milian Thoralfsson
Board member

Niclas Thulin
Board member, appointed by the employees

Our audit report was submitted on February 21, 2018
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

PC16. AUDITOR'S REPORT

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Essity Aktiebolag (publ) except for the corporate governance statement on pages 84–93 and the statutory sustainability report on pages 77–83 and 149–156 for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 38–157 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 2017 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 2017 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 the corporate governance statement on pages 84–93 or the statutory sustainability report on pages 77–83 and 149–156. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

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

VALUATION OF GOODWILL AND OTHER INTANGIBLES ASSETS (TRADEMARKS)

Description	How our audit addressed this key audit matter
The value of goodwill and other intangibles (trademarks) with an indefinite useful life as of 31 December 2017 amounted to 34,5 billion SEK. An impairment test is a complex process and contains a high degree of judgment regarding future cash flows and other assumptions. We have therefore assessed valuation of goodwill and other intangibles assets with an indefinite useful life to be key audit matter. The Company performs annual impairment tests as well as when impairment indicators have been identified. The recoverable amount for each cash-generating unit is determined as the value in use, which is calculated based on the discontinued present value of future cash flows. Key assumptions in these calculations are future growth rate, gross profit and applied discount rate. The process is by nature based on assumptions and judgment, not least because it is based on estimates of how the company´s business will be effected by future market developments and by other economic events, and the underlying calculations are in themselves complex.	In our audit we have evaluated and reviewed key assumptions, applications of recognized valuation practice, discount rate (called WACC – "Weighted Average Cost of Capital") and other source data that the company has used. This has been done by comparing to external data sources, such as forecasts of inflation or assessment of future market growth and by evaluating the sensitivity in the company´s valuation model. We have as appropriate included valuation experts in the team performing our review. 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 this assessment we have also evaluated the company´s historical capability to forecast. Finally we have evaluated if disclosures provided in Note D1 ("Intangible assets") in the company´s notes are appropriate, specifically with regards to be disclosure of which of the stated assumptions that are most sensitive in calculating the value in use.

REVENUE RECOGNITION AND RELATED SALES INCENTIVES

Description	How our audit addressed this key audit matter
Revenue recognition and related sales incentives are areas with a greater degree of estimates and assessments. We have noted that rebates and adjustments of sales prices in some cases can be material. Normal incentives related to sales are reported as such reduction of the company´s revenue. The company applies different incentive programs to increase sales. Incentives can for example be structured as percentage reductions on sales, discounts per item, fixed amounts with or without thresholds or in other ways. The company calculates an estimate of final incentives based on the information available the end of the period.	In our audit we have reviewed the accrued costs related to bonuses and rebates to customers as of 31 December 2017 which amounted to 4.4 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2017. Our audit as also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2017. We have also reviewed non-standard customer agreements. In our audit we have tested larger payouts to the company´s customers that have taken place during 2017 in order to confirm that they are in accordance with customer agreements and reported in the correct accounting period. Finally we have audited manual journal entries related to bonus and rebates in order to confirm that sufficient documentation and suitable attestations exist for these entries.

ACQUISITION OF BSN MEDICAL

Description	How our audit addressed this key audit matter
During 2017 Essity acquired BSN medical. The purchase price for the shares was 1 394 million EUR and the takeover of net debt amounted to 1,321 million EUR. Of the purchase price intangible assets amounted to 13,472 million SEK of which 13,145 million SEK was goodwill. The company's disclosures related to the acquisition is provided in Note F6 ("Acquisitions and divestments"). The accounting for the acquisitions has required significant estimates and assumptions from management. The most important assumption is the allocation of the purchase price to acquired assets and liabilities and necessary adjustments to the group's accounting principles. In preparing the purchase price allocation the company has made several assumptions such as future cash flows, growth, discount rate and choice of valuation model. We have assessed the accounting for the acquisition to be a key audit matter due to the inherent high degree of judgment regarding future cash flows and other assumptions.	In our audit we have evaluated and reviewed management's processes for preparing the purchase price allocation by, among other things, evaluating the reasonableness of future cash flows and growth rate assumptions. We have, with support from our valuation experts, reviewed the company's models and methods used in preparing the purchase price allocation, the reasonableness in choice of valuation model, key assumptions such as discount rate, future cash flows and useful life of assets. Our audit procedures have also consisted of a review of both the share purchase agreement and the opening balance sheet at the acquisition date. We have also audited the adjustments made due to the difference in the acquired company´s accounting principles compared to those applied by Essity. Finally we have evaluated the appropriateness of the disclosures made in the annual report.

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 1–37 and 162–174. 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 Aktiebolag (publ) for the year 2017 financial year 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.

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 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 84–93 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 66–83 and 149–156, 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, Box 79850, 103 99 Stockholm, was appointed auditor of Essity Aktiebolag (publ) by the general meeting of the shareholders on the 5 April 2017 and has been the company's auditor since the 26 May 2017.

Stockholm 21 February 2018

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

GRI index and index for sustainability report in accordance with the Annual Accounts Act

Essity's 2017 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. The report also includes requirements placed on sustainability reporting as stated in the Annual Accounts Act. The report has been reviewed by Ernst & Young.

GRI index

General Standard Disclosures

		Disclosure	Page	Comment/Omission
GRI 101: Foundation 2016				
GRI 102: General disclosures 2016				
ORGANIZATIONAL PROFILE				
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	102-3	Location of headquarters	173	
	102-4	Countries in which operations are located	112–113	
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	102-8	Information on employees and other workers	150	
	102-9	Supply chain	83	
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STRATEGY				
	102-14	Statement from senior decision-maker	6–7	
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	102-16	Values, principles, standards, code of conduct and code of ethics	21, 37, 78–79	
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	102-18	Governance structure	84–85	
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	102-50	Reporting period	149	
	102-51	Date of most recent report	–	This is Essity's first
	102-52	Reporting cycle	149	
	102-53	Contact point for questions regarding the report	173	
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Specific Standard Disclosures

GRI Standard		Description	Page	Comment/Omission	Topic in Essity's materiality analysis
ECONOMIC					
Economic performance GRI 201: Economic Performance 2016	103–1/2/3*	DMA	66–71		Risk management Resource efficiency
	201-1	Direct economic value generated and distributed	73		
Indirect Economic Impacts GRI 203: Indirect Economic Impacts 2016	103–1/2/3*	DMA	77–78		Risk management
	203-2	Significant indirect economic impacts	12–13. 19–20, 34–36, 66–71		
Anti-corruption GRI 205: Anti-corruption 2016	103–1/2/3*	DMA	37, 78–79		Business ethics Transparency
	205-1	Operations assessed for risks related to corruption and the Transparency significant risks identified	74, 150		
	205-3	Actions taken in response to confirmed incidents of corruption	150, 156		
Anti-competitive Behavior GRI 206: Anti-competitive Behavior 2016	103–1/2/3*	DMA	74–75		Business ethics Transparency
	206-1	Anti-trust and monopoly court cases	150		
ENVIRONMENT					
Energy GRI 302: Energy 2016	103–1/2/3*	DMA	81–82		Resource efficiency
	302-1	Energy consumption within the organization	154		
	302-2	Energy consumption outside of the organization	156		
	302-4	Reduction of energy consumption	154		
Water GRI 303: Water 2016	103–1/2/3*	DMA	82		Water use and water purification
	303-1	Total water withdrawal by source	155		
Emissions GRI 305: Emissions 2016	103–1/2/3*	DMA	82		CO2 emissions Water use and water purification Resource efficiency
	305-1	Direct greenhouse gas (GHG) emissions (scope 1)	170		
	305-2	Energy indirect greenhouse gas (GHG) emissions (scope 2)	170		
	305-3	Other indirect greenhouse gas (GHG) emissions (scope 3)	156		
	305-4	Greenhouse gas (GHG) emissions intensity	170		
	305-7	NOx, SOx, and other significant air emissions	154, 170		
Effluents and Waste GRI 306: Effluents and Waste 2016	103–1/2/3*	DMA	82, 155		Water use and water purification Resource efficiency
	306-1	Total water discharge by quality and destination	155, 170		
	306-2	Total weight of waste by type and disposal method	155, 170		
SOCIAL PERFORMANCE INDICATORS					
Employment GRI 401: Employment 2016	103–1/2/3*	DMA	79		Human capital
	401-1	New employee hires and employee turnover	150, 171		
Labor/Management Relations GRI 402: Labor/Management Relations 2016	103–1/2/3*	DMA	79		Human capital
	402-1	Minimum notice periods regarding operational changes	79		
Occupational Health and safety GRI 403: Occupational Health and Safety 2016	103–1/2/3*	DMA	80		Occupational Health and safety
	403-1	Percentage of total workforce represented in formal joint management-worker health and safety committees	151		
	403-2	Rates of injury. occupational diseases. lost days, absenteeism and total number of work-related fatalities	151, 171		
Training and Education GRI 404: Training and Education 2016	103–1/2/3*	DMA	79		Human capital
	404-3	Percentage of employees receiving regular performance and career development reviews	150		
Diversity and Equal Opportunity GRI 405: Diversity and Equal Opportunity 2016	103–1/2/3*	DMA	79		Human capital
	405-1	Composition of governance bodies and employee breakdown	87, 90–91, 150–151		
	405-2	Ratio of basic salary and remuneration of women to men	150		
Non-discrimination GRI 406: Non-discrimination 2016	103–1/2/3*	DMA	37, 78–79		Business ethics Transparency
	406-1	Actions taken in incidents of discrimination	150		

* GRI 103: Management Approach 2016.

GRI index and index for sustainability report in accordance with the Annual Accounts Act

GRI Standard		Description	Page	Comment/Omission	Topic in Essity's materiality analysis
Freedom of Association and Collective Bargaining GRI 407: Freedom of Association and Collective Bargaining 2016	103–1/2/3*	DMA	68, 78–79		Business ethics Transparency
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	150		
Child Labor GRI 408: Child Labor 2016	103–1/2/3*	DMA	68, 78–79		Business ethics Transparency
	408-1	Measures taken to eliminate child labor in risk areas	37, 150	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*	DMA	68, 78–79		Business ethics Transparency
	409-1	Measures taken to eliminate forced or compulsory labor in risk areas	78–79, 150		
Human rights GRI 412: Human Rights Assessment 2016	103–1/2/3*	DMA	68, 78–79		Human rights Business ethics Transparency
	412-2	Employee training on human rights	78–79, 150		
Supplier Social Assessment GRI 414: Supplier Social Assessment 2016	103–1/2/3*	DMA	69, 83		Human rights Business ethics Transparency
	414-2	Significant potential and actual negative impacts in the supply chain and actions taken	37, 78–79, 150	Work to combat corruption takes many different forms via training sessions	
Marketing and Labelling GRI 417: Marketing and Labeling 2016	103–1/2/3*	DMA	24		Customer and consumer satisfaction Product safety
	417-1	Product information required by procedures	81		

* GRI 103: Management Approach 2016.

Index for sustainability report in accordance with the Annual Accounts Act

	Disclosure	Page	Comment/Omission
GENERAL			
	Business model	72–73	
ENVIRONMENT			
	Policy on environmental issues	77, 81–82	
	Risks and risk management on environmental issues	67, 81–82	
	Targets and outcomes related to environmental issues	153–156	
SOCIAL CONDITIONS			
	Policy on social issues	77–80	
	Risks and risk management on social issues	68–69	
	Targets and outcomes related to social issues	150–151	
RESPECT FOR HUMAN RIGHTS			
	Policy for human rights	77–79	
	Risks and risk management on human rights issues	68, 74–75	
	Targets and outcomes related to human rights issues	150	
ANTI-CORRUPTION			
	Policy for work in anti-corruption	77–79	
	Risks and risk management in anti-corruption	68, 74–75	
	Targets and outcomes related to anti-corruption	150	

AUDITOR'S COMBINED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT OF ESSITY AKTIEBOLAG (PUBL)

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

To Essity Aktiebolag (publ)

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 2017. The Company has defined the scope of the Sustainability Report to the areas referred to in the GRI index on the pages 162–164.

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 explained on page 149, and are the parts 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.

We conducted our engagement in accordance with ISAE 3000 *Assurance engagements other than audits or reviews of historical financial information*, with the application of RevR 6 *Assurance of Sustainability Reports* issued by FAR.

The engagement includes a limited assurance engagement on the complete Sustainability Report and audit of environmental data – fossil fuels and grid supply – on page 170. 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. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement 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.

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

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

CONCLUSIONS

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

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

Stockholm, 21 February 2018
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Outi Alestalo
Expert member of FAR

Financial multi-year summary

SEKm	2017	2016	2015	2014
INCOME STATEMENT				
Net sales	109,265	101,238	98,519	87,997
Operating profit before amortization of acquisition-related intangible assets (EBITA)[1]	**12,550**	**9,347**	**10,311**	**8,486**
Personal Care	5,937	4,283	3,997	3,528
Consumer Tissue	4,084	4,450	3,846	3,858
Professional Hygiene	4,004	3,836	3,497	2,918
Other operations[2]	–1,475	–3,222	–1,029	–1,818
Amortization of acquisition-related intangible assets, etc.[3]	–645	–339	–627	–126
Operating profit	**11,905**	**9,008**	**9,684**	**8,360**
Financial income[4]	158	202	312	416
Financial expenses	–1,340	–1,037	–1,140	–1,156
Profit before tax	**10,723**	**8,173**	**8,856**	**7,620**
Tax	–1,938	–3,931	–2,278	–1,939
Profit for the period	**8,785**	**4,242**	**6,578**	**5,681**
BALANCE SHEET				
Non-current assets (excl. financial receivables)	105,398	77,238	67,483	69,519
Receivables and inventories	34,664	29,917	29,171	28,207
Non-current assets held for sale	42	156	120	60
Financial receivables	1,700	1,052	766	2,849
Current financial assets	1,105	1,677	12,983	14,024
Cash and cash equivalents	4,107	4,244	4,828	3,806
Total assets	**147,016**	**114,284**	**115,351**	**118,465**
Equity	42,289	33,204	42,986	39,675
Non-controlling interests	7,281	6,376	5,289	5,250
Provisions	11,631	9,145	6,675	8,189
Interest-bearing debt	54,838	36,873	34,717	40,787
Operating and other non-interest bearing liabilities	30,977	28,686	25,684	24,564
Total liabilities and equity	**147,016**	**114,284**	**115,351**	**118,465**
Capital employed[5]	90,167	73,145	70,115	66,866
Net debt, incl. pension liabilities	52,467	35,173	19,058	25,066
CASH FLOW STATEMENT				
Operating cash flow	12,723	13,031	10,440	9,714
Cash flow from current operations	8,745	8,563	7,550	6,900
Cash flow before dividend	–19,372	359	5,328	4,981
Current capital expenditures	–3,911	–4,222	–3,293	–2,861
Strategic capital expenditures, non-current assets	–2,101	–2,033	–2,179	–1,632
Company acquisitions	–26,045	–6,540	–92	–492
Divestments	29	369	49	205
KEY FIGURES [6]				
Equity/assets ratio, %	29	29	37	33
Interest coverage, multiple	10.1	10.8	11.7	11.3
Debt payment capacity, incl. pension liabilities, %	26	29	65	40
Debt/equity ratio, incl. pension liabilities	1.06	0.89	0.39	0.56
Debt/equity ratio, excl. pension liabilities	0.99	0.76	0.34	0.45
Return on capital employed, %	13.9	12.8	13.8	12.5
Return on capital employed, excl. items affecting comparability, %	14.9	16.4	15.1	14.2
Return on equity, %	19.8	9.3	13.9	13.3
Operating profit before amortization of acquisition-related intangible assets (EBITA) margin, %	11.5	9.2	10.5	9.6
Operating profit before amortization of acquisition-related intangible assets (EBITA) margin excl. items affecting comparability, %	12.3	11.8	10.8	10.8
Operating margin, %	10.9	8.9	9.8	9.5
Operating margin, excl. items affecting comparability, %	11.8	11.7	10.6	10.6
Net margin, %	8.0	4.2	6.7	6.5
Capital turnover rate, multiple	1.21	1.38	1.41	1.32
Operating cash flow per share, SEK[7]	12.45	12.19	10.75	9.82
Earnings per share, SEK[7]	11.56	5.41	8.73	7.42
Dividend per share, SEK[8]	5.75			

1) 2015 includes the sale of securities, SEK 970m.
2) 2017, 2016, 2015 and 2014 include items affecting comparability of SEK –855m, SEK –2,645m, SEK –292m, SEK –1,009m.
3) 2017, 2016 and 2015 include items affecting comparability of SEK –85m, SEK –180m, SEK –494m.
4) 2015 does not include the sale of securities, SEK 970m.
5) Calculation of average capital employed is based on five measurements.
6) Key figures are defined on page 172.
7) Indicative on the assumption that the number of issued shares in Essity as of December 31, 2016, 2015 and 2014 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).
8) Dividend for 2017 relates to the proposed dividend.

Comments to the financial multi-year summary

Income statement

Net sales

In 2015, organic sales increased by 6%, of which volume accounted for 3% and price/mix for 3%. This increase was primarily attributable to emerging markets. In 2016, organic sales increased by 3%, of which volume accounted for 2% and price/mix for 1%. This increase was primarily attributable to emerging markets. The acquisition of Wausau Paper Corp. increased net sales by 3%. In 2017, organic sales increased by 1.2%, of which volume accounted for 0.8% and price/mix for 0.4%. This increase was primarily attributable to emerging markets. The acquisition of BSN medical and Wausau Paper Corp. increased net sales by 6.4%.

In 2015, organic sales for Personal Care increased by 7%, of which volume accounted for 4% and price/mix for 3%. This increase was primarily attributable to emerging markets. In 2016, organic sales increased by 3%, of which volume accounted for 2% and price/mix for 1%. This increase was primarily attributable to higher sales of Feminine Care. The divestment of the Baby Care business in South Africa decreased net sales by 1%. In 2017, organic sales increased by 1.8%, of which volume accounted for 2.2% and price/mix for –0.4%. This increase was primarily attributable to emerging markets. The closures of the Baby Care business in Mexico and the hygiene business in India negatively impacted organic sales by approximately 1%. The acquisition of BSN medical increased net sales by 18.7%.

In 2015, organic sales for Consumer Tissue increased by 6%, of which volume accounted for 4% and price/mix for 2%. This increase was primarily attributable to emerging markets. In 2016, organic sales increased by 3%, of which volume accounted for 1% and price/mix for 2%. This increase was primarily attributable to emerging markets. In 2017, organic sales increased by 0.5%, of which volume accounted for 0.7% and price/mix for –0.2%. This increase was primarily attributable to emerging markets.

In 2015, organic sales for Professional Hygiene increased by 2%, of which volume accounted for 1% and price/mix for 1%. This increase was primarily attributable to higher sales in emerging markets and North America. In 2016, organic sales increased by 3%, of which volume accounted for 3% and price/mix for 0%. This increase was primarily attributable to emerging markets. The acquisition of Wausau Paper Corp. increased net sales by 13%. In 2017, organic sales increased by 1.5%, of which volume accounted for –0.7% and price/mix for 2.2%. This increase was primarily attributable to emerging markets. The acquisition of Wausau Paper Corp. increased net sales by 0.6%.

Adjusted EBITA[1)]

Adjusted EBITA rose 12% in 2015. The increase was mainly related to a better price/mix, higher volumes and cost savings. Adjusted EBITA rose 13% in 2016. The increase was mainly related to a better price/mix, higher volumes, cost savings, lower raw material and energy costs and acquisitions. Adjusted EBITA rose 12% in 2017. The increase was mainly related to higher volumes, a better price/mix, cost savings, the acquisitions of BSN medical and Wausau Paper Corp., and the closures of the hygiene business in India and the Baby Care business in Mexico.

Adjusted EBITA for Personal Care rose 13% in 2015. The increase was mainly related to a better price/mix, higher volumes and cost savings. Adjusted EBITA rose 7% in 2016. The increase was mainly related to a better price/mix, higher volumes and cost savings. Adjusted EBITA rose 39% in 2017. The increase was mainly related to the acquisition of BSN medical, higher volumes, cost savings and the closures of the hygiene business in India and the Baby Care business in Mexico.

Adjusted EBITA for Consumer Tissue declined 1% in 2015. The decline was mainly attributable to increased raw material costs. Adjusted EBITA rose 16% in 2016. The increase was mainly related to a better price/mix and higher volumes. Adjusted EBITA declined 8% in 2017. The decline was mainly attributable to increased raw material costs.

Adjusted EBITA for Professional Hygiene rose 20% in 2015. The increase was mainly related to a better price/mix, higher volumes and cost savings. Adjusted EBITA rose 10% in 2016. The increase was mainly related to acquisition, higher volumes and lower raw material and energy costs. Adjusted EBITA rose 4% in 2017. The increase was mainly related to a better price/mix, cost savings and the acquisition of Wausau Paper Corp.

Cash flow statement

A total of approximately SEK 41bn has been invested in expansion during the reported four-year period, of which approximately SEK 33bn is attributable to company acquisitions. Maintenance investments amounted to approximately SEK 14bn and have remained at a steady level of about 4% in relation to net sales.

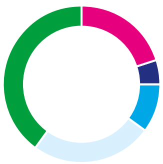
Key figures

The Board of Directors proposes a dividend of SEK 5.75 per share for the 2017 fiscal year.

1) Excluding items affecting comparability

Description of costs

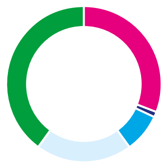
Essity Group



Total operating expenses[1]: SEK 96,590m
- Sales, general and administration[2], 20%
- Energy, 5%
- Transport and distribution expenses, 10%
- Other costs of goods sold[3], 25%
- Raw materials and consumables, 40%

Of which	
Pulp	16%
Recovered paper	4%
Super absorbents	2%
Non-woven	3%
Other[4]	15%
Total raw materials and consumables	**40%**

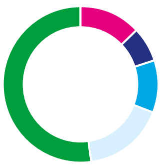
Personal Care



Total operating expenses[1]: SEK 35,210m
- Sales, general and administration, 31%
- Energy, 1%
- Transport and distribution expenses, 8%
- Other costs of goods sold, 20%
- Raw materials and consumables, 40%

Of which	
Pulp	8%
Super absorbents	5%
Non-woven	7%
Other	20%
Total raw materials and consumables	**40%**

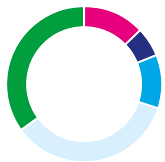
Consumer Tissue



Total operating expenses[1]: SEK 38,006m
- Sales, general and administration, 13%
- Energy, 7%
- Transport and distribution expenses, 11%
- Other costs of goods sold, 17%
- Raw materials and consumables, 52%

Of which	
Pulp	29%
Recovered paper	4%
Other	19%
Total raw materials and consumables	**52%**

Professional Hygiene



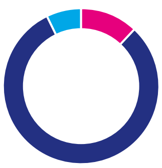
Total operating expenses[1]: SEK 22,787m
- Sales, general and administration, 13%
- Energy, 6%
- Transport and distribution expenses, 11%
- Other costs of goods sold, 35%
- Raw materials and consumables, 35%

Of which	
Pulp	8%
Recovered paper	10%
Other	17%
Total raw materials and consumables	**35%**

1) Excluding items affecting comparability.
2) Sales, general and administration include costs for marketing (6 percentage points).
3) The two largest items of Other costs of goods sold comprise personnel (11 percentage points) and depreciation/amortization (5 percentage points).
4) The item Other in Raw materials and consumables includes costs for chemicals, packaging material and plastic material.

Raw materials, energy and transport activities

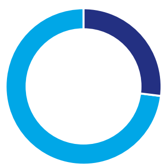
Pulp consumption



- Personal Care, 12%
- Consumer Tissue, 81%
- Professional Hygiene, 7%

Total of 3.1 million tons
Essity's own pulp production corresponded to 8% of pulp consumption and is primarily related to an integrated tissue plant in Mannheim, Germany.

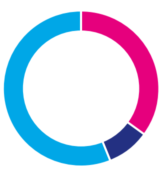
Recovered paper consumption



- Personal Care, 0%
- Consumer Tissue, 27%
- Professional Hygiene, 73%

Total of 2.1 million tons

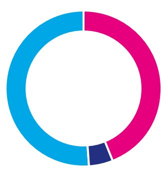
Energy consumption[5]



- Electricity, 35%
- Biofuels, 9%
- Fossil fuels, 56%

Total of 13.5 TWh

Transport activities[5]



- Road, 44%
- Rail, 5%
- Sea, 51%

Total of 12.7 billion ton kilometers

5) Excluding Vinda and BSN medical.

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
Tuzla (Istanbul)	Turkey
Bowling Green	US

Consumer Tissue and Professional Hygiene

Production facility	Country	Capacity
Ortmann	Austria	132
Stembert	Belgium	75
Santiago	Chile	45
Beijing	China	30
Xinhui, Sanjiang	China	440
Hubei	China	180
Liaoning	China	55
Shangdong	China	110
Sichuan	China	75
Zhejiang	China	210
Cajica	Colombia	70
Medellin	Colombia	39
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	140
Monterrey	Mexico	57
Sahagun	Mexico	60
Uruapan	Mexico	40
Cuijk	Netherlands	52
Suameer[2)]	Netherlands	8
Sovetsk	Russia	90
Svetogorsk	Russia	55
Allo	Spain	160
La Riba	Spain	26
Valls	Spain	132
Lilla Edet	Sweden	100
Manchester	UK	50
Oakenholt	UK	70
Prudhoe	UK	92
Stubbins	UK	55
Tawd Mill	UK	30
Barton	US	180
Harrodsburg	US	55
Menasha	US	211
Middletown	US	100
South Glens Falls	US	64
Total		**4,342**

Converting facility	Country
Kingsgrove	Australia
St. Etienne du Rouvray	France
Lucca	Italy
Hlohovec	Slovakia
Telde	Spain
Ksibet el Mediouni	Tunisia
Skelmersdale	UK
Bellemont	US
Greenwich	US
Neenah	US

1) As of December 31, 2017.
2) Non-woven production.

Environmental data

		Consumer Tissue and Professional Hygiene			Personal Care			Essity Group		
		2017	2016	2015	2017	2016	2015	2017	2016	2015
Production										
Tissue and pulp	ktons	3,173	3,200	3,097				3,173	3,200	3,097
Personal care	ktons				683	642	761	683	642	761
1. Raw materials										
Wood	ktons	420	435	460				420	435	460
Purchased pulp	ktons	1,549	1,358	1,402	337	350	383	1,886	1,708	1,785
Purchased tissue	ktons	19	12	10	0.2	0.5	0	19	13	10
Recovered paper	ktons	2,116	2,156	1,972	5	5	5	2,121	2,161	1,977
Water	Mm^3	104	105	98	0.89	0.95	0.98	104	106	99
2. Energy										
Electricity										
Co-generation	GWh	569	547	532	0	0	0	569	547	532
Grid supply	GWh	3,720	3,822	3,687	489	466	518	4,210	4,289	4,206
Total	GWh	4,289	4,369	4,219	489	466	518	4,778	4,835	4,738
Fuels										
Biofuel	TJfuel	4,414	4,923	4,485	0	0	0	4,414	4,923	4,485
Fossil fuel	TJfuel	26,640	26,809	26,313	302	318	304	26,942	27,127	26,617
Electric boiler and hood	TJfuel	79	88	65	0	0	0	79	88	65
Total	TJfuel	31,132	31,820	30,863	302	318	304	31,434	32,138	31,167
of which co-generation	TJfuel	2,532	2,210	2,238	0	0	0	2,532	2,210	2,238
Total energy (electricity and fuel)	GWh	12,937	13,208	12,792	573	555	603	13,510	13,762	13,395
3. Discharges										
To Air										
NO_x as NO_2	tons	1,849	1,942	1,649	23	25	23	1,872	1,966	1,673
SO_2	tons	789	768	321	0.1	0.2	0.1	789	768	321
Dust	tons	126	139	133	0.2	0.3	0.1	126	139	133
CO_2 fossil	ktons	1,537	1,560	1,491	17	18	17	1,554	1,578	1,508
CO_2, grid electricity	ktons	1,222	1,304	1,199	129	123	156	1,351	1,427	1,355
CO_2 biogenic	ktons	459	524	500	0	0	7	459	524	508
To water										
COD	tons	7,489	7,860	9,434	31	37	36	7,520	7,897	9,470
BOD	tons	883	1,156	1,326	1	1	1	884	1,157	1,327
Suspended solids	tons	1,068	1,323	1,282	1	1	1	1,069	1,324	1,283
AOX	tons	5	4	5	0.1	0.1	0.1	5	4	5
P	tons	37	43	35	0.2	1	1	38	43	36
N	tons	237	379	230	2	2	2	238	381	232
Effluent water	Mm^3	72	75	68	0.4	0.4	0.4	72	75	68
Solid waste										
Disposal	tons	625,818	672,697	675,230	3,490	4,351	2,533	629,308	677,048	677,763
Recovery	tons	960,871	1,051,527	994,559	63,242	55,168	56,928	1,024,113	1,106,695	1,051,487
Total waste	tons	1,586,689	1,724,224	1,669,789	66,732	59,519	59,461	1,653,421	1,783,743	1,729,250
Certified volumes, Essity's main sites										
ISO 9001	%	73	77	77	97	96	82			
ISO 14001	%	85	86	87	85	85	90			

Essity's specific (related to production) emissions (Scope 1 and 2) in 2017 corresponding to 0.75 kton CO_2/kton production, 0.78 kton/kton in 2016 and 0.74 kton/kton in 2015.

Social data

	2017	2016	2015	2014
Average number of employees	46,385	42,149	39,951	40,165
of whom women, %	34	32	31	33
Employees leaving the company during the year	7,317	5,994	5,355	8,069
of which restructuring	584	262	699	978
of which retirement	418	304	174	152
Employees joining the company during the year	13,585[1]	8,150	5,823	7,132
Employee turnover, excl. restructuring and retirement, %	14	13	11	17
Age distribution, %				
–20 years	1	1	1	2
21–30 years	22	24	24	25
31–40 years	33	32	32	32
41–50 years	25	25	25	25
51–60 years	16	16	15	15
60– years	3	2	2	2
Academic degree or similar	22	22	22	22
Diversity				
Women, of total number of Board members and senior executives, %	40	42	35	21
Women, of total number of Board members (excl. members appointed by the employees) and senior executives, %	45	43	39	24
Women in executive management, %	36	33	35	24
Nationalities, senior management[2], number	18	21	28	25
Nationalities, senior and middle management[2], number	36	32	42	39
Female managers, senior management[2], %	27	25	24	25
Female managers, senior and middle management[2], %	23	27	29	29
Health and safety				
Average headcount	27,127	24,949	24,207	23,808
Lost Time Accidents, (LTA)	210	207	281	311
Contractor Lost Time Accidents (CLTA)	34	33	33	38
Days Lost due to Accidents, (DLA)	4,877	5,201	5,378	5,723
Accident Severity Rate (ASR)	23.2	25.1	22.7	18
Frequency Rate (FR), (LTA /1,000,000 WH)	3.8	4.1	5.5	6
Incident Rate (IR), (LTA/200,000 WH)	0.8	0.8	1.1	1
Fatalities (employees)	0	1	0	0
Number of zero-accident sites	26	19	17	17
Number of sites included in reporting	85	72	70	68
Code of Conduct				
Business Practice Reviews	Costa Rica/Nicaragua, Greece, Italy, Germany.	Mexico, Poland, Russia, Taiwan	Brazil	Czech Republic, South Korea, Spain
Code of Conduct audits	India, Mexico, Spain, Germany	Mexico, Sweden, US, UK	China, Russia, Spain, Turkey	Chile, France, Mexico, Slovakia, Taiwan

1) Of which 5,518 were added via the acquisition of BSN medical.
2) 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.

Definitions

Capital definitions

Capital employed The Group's and business areas' capital employed is calculated as an average of the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.

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. (Deferred tax liability in untaxed reserves has been calculated at a 22.0% rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden).

Net debt The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less cash and cash equivalents and interest-bearing current and non-current receivables and capital investment shares.

Equity per share Equity in relation to the total number of registered shares.

Financial measurements

Equity/assets ratio Equity expressed as a percentage of total assets.

Debt/equity ratio Expressed as net debt in relation to equity.

Interest coverage ratio Calculated according to the net method where operating profit is divided by financial items.

Cash earnings Calculated as profit before tax, with a reversal of depreciation and impairment of property, plant and equipment and intangible assets, share of profits of associates, and non-recurring items, reduced by tax payments.

Debt payment capacity Expressed as cash earnings in relation to closing net debt.

Operating surplus Expressed as operating profit before depreciation/impairment of property, plant and equipment and intangible assets and share of profits of associates.

Operating cash flow The sum of operating cash surplus and change in working capital, with deductions for current capital expenditures in property, plant and equipment and restructuring costs.

Cash flow from current operations Operating cash flow less net financial items and tax payments and taking into account other financial cash flow.

Strategic capital expenditure in plant and equipment Strategic investments increase the company's future cash flow through capital expenditures to expand facilities, or new technologies that boost competitiveness.

Current capital expenditure Investments to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature.

Organic sales growth Sales growth excluding exchange rate effects, acquisitions and divestments.

Margins, etc.

Operating surplus margin Operating surplus as a percentage of net sales for the year.

EBITA margin Operating profit before amortization of acquisition-related intangible assets as a percentage of net sales for the period.

Adjusted EBITA margin Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability, as a percentage of net sales for the year.

Operating margin Operating profit as a percentage of net sales for the year.

Net margin Profit for the year as a percentage of net sales for the year.

Capital turnover Net sales for the year divided by average capital employed.

Profitability ratios

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.

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.

Return on equity Return on equity is calculated for the Group as profit for the year as a percentage of average equity.

Other measurements

Value added per employee Operating profit plus salaries, wages and payroll expenses divided by the average number of employees.

For additional definitions, refer to Note A2 Use of non-IFRS (International Financial Reporting Standards) performance measures on pages 104–108.

Awards and memberships

Essity's initiatives and results have gained recognition. We are included in a number of sustainability indexes and have received several prestigious awards.

Essity plays an active role in leading organizations at the global, regional and local levels with the aim of contributing to a sustainable future for companies, society and the environment.

WWF Environmental Paper Index

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The name Essity stems from the words “essentials” and “necessities”. We are a leading global hygiene and health company offering products for “everyday necessities”. Hygiene and health are the essence of well-being. Better hygiene and health are necessities for better lives and our products and solutions play an essential role in improving well-being.

That is why we are called Essity.

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