essity

Admission to trading of the shares in Essity Aktiebolag (publ) on Nasdaq Stockholm

Handelsbanken Capital Markets

Bank of America Merrill Lynch

Important information

For certain definitions used in this prospectus, see “*Certain definitions*” on the next page.

This prospectus has been prepared following a resolution at the 2017 Annual General Meeting of Svenska Cellulosa Aktiebolaget SCA (publ) (“**SCA**”) to distribute to SCA’s shareholders the shares in Essity Aktiebolag (publ) (“**Essity**” or the “**Company**”) and the Board of Directors of Essity’s application for listing of those shares on Nasdaq Stockholm.

A Swedish version of this prospectus has been approved and registered by the Swedish Financial Supervisory Authority (the “**SFSA**”) in accordance with Chapter 2, Sections 25 and 26 of the Swedish Financial Instruments Trading Act (*lagen (1991:980) om handel med finansiella instrument*). Approval and registration does not imply that the SFSA guarantees that the information in the prospectus is accurate or complete.

The prospectus is governed by Swedish law. Disputes arising in connection with this prospectus and related legal matters shall be settled exclusively by Swedish courts. The prospectus has been prepared in both Swedish and English language versions. The English version contains certain sections specifically directed to holders outside of Sweden, which are not included in the Swedish version. In the event of any conflict between the versions, the Swedish version shall prevail.

This prospectus has been prepared for the purpose of Essity’s application of admission to trading of the shares in Essity on Nasdaq Stockholm and does not contain any offer to subscribe for, or in any other way acquire shares or other financial instruments in the Company, neither in Sweden nor in any other jurisdiction. The prospectus and thereto related documents may not be distributed to or into the United States, Canada, Australia, Japan or any other jurisdiction where such distribution would require additional prospectuses, registration or measures besides those required by Swedish law or otherwise would be in conflict with applicable regulations in such countries or in such jurisdictions. Recipients of this prospectus are required to inform themselves about, and comply with, such restrictions. Any failure to comply with the restrictions described may result in a violation of applicable securities regulations.

Investing in shares is associated with risk (see “*Risk factors*”). When an investor makes an investment decision, he or she must rely on his or her own analysis of Essity, including applicable facts and risks. Investors may only rely on the information in this prospectus and any possible supplements to this prospectus. No person is authorized to provide any information or make any statements other than those made in this prospectus. Should such information or statement nevertheless be provided or be made it should not be considered to have been approved by Essity, and Essity is not responsible for such information or statements. Neither the publication of this prospectus nor any transaction made in respect of it shall be deemed to imply that the information in this prospectus is accurate or applicable at any time other than on the date of the publication of this prospectus or that there have been no changes in Essity’s business since this date. If significant changes relating to the information contained in this prospectus occur, such changes will be announced in accordance with the provisions on prospectus supplements under the Swedish Financial Instruments Trading Act.

Information to investors in the United States

The distribution of Essity’s shares has not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”). The Essity shares have not been approved or disapproved by the United States Securities and Exchange Commission (“**SEC**”), any state securities commission in the United States or any United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the distribution of the Essity shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Essity will be relying on an exemption provided by Rule 12g3-2(b) under the United States Securities Exchange Act of 1934, as amended, and therefore will not be required to register its shares with the SEC. In accordance with Rule 12g3-2(b), Essity will make available certain documents on its website. These documents will consist primarily of English-language versions of its annual reports, press releases and certain other information made public in Sweden. However, Essity will not be required to file with the SEC annual reports on Form 20-F or furnish reports on Form 6-K.

Essity will establish an American depositary receipt program (“**ADR Program**”) pursuant to a deposit agreement, setting out the terms of the program. For more information about Essity’s ADR Program and on the procedure pursuant to which holders of current SCA American depositary shares will receive Essity American depositary shares (“**ADS**”) representing the Essity shares deliverable to such holders, see *“American depositary shares*” in the section entitled “*Information regarding the distribution of Essity*” and “*Depositary shares*” in the section entitled “*Share capital and ownership structure*”.

Forward-looking statements

The prospectus contains certain forward-looking information that reflects Essity’s present view of future events as well as financial and operational development. Words such as “intend”, “assess”, “expect”, “may”, “plan”, “believe”, “estimate” and other expressions entailing indications or predictions of future development or trends, not based on historical facts, constitute forward-looking information. Forward-looking information is inherently associated with both known and unknown risks and uncertainties as it depends on future events and circumstances. Forward-looking information is not a guarantee of future results or development and actual outcomes may differ materially from the statements set forth in the forward-looking information.

Factors that may cause Essity’s future results and development to differ from the forward-looking information include among other those described in “*Risk factors*”. The forward-looking information contained in this prospectus applies only as at the date of this prospectus. Essity does not undertake any obligation to publicly announce any update or change in the forward-looking information as a result of new information, future events or similar circumstances other than as required by applicable laws and regulations.

Presentation of financial information

Certain figures in this prospectus, including financial data, have been rounded. Accordingly, figures shown in totals in certain tables may not be an exact arithmetic aggregation of the figures which precede them.

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Important dates

Last day of trading in SCA's shares of Class A and Class B, respectively, with the right to the distribution of shares of Class A and Class B in Essity, respectively: .... June 9, 2017

SCA's shares of Class A and Class B, respectively, are traded excluding the right to the distribution of shares of Class A and Class B in Essity, respectively: .... June 12, 2017

Record date for receipt of shares in Essity and Essity ADSs: .... June 13, 2017

Estimated first day of trading in Essity's shares of Class A and Class B, respectively, on Nasdaq Stockholm: .... June 15, 2017

Estimated date of delivery of Essity ADSs: .... June 15, 2017

Other information

Ticker symbol Class A share: .... ESSITY A

Ticker symbol Class B share: .... ESSITY B

ISIN code Class A share: SE0009922156

ISIN code Class B share: SE0009922164

Financial information

Interim report January–June 2017 .... July 18, 2017

Interim report January–September 2017 .... October 26, 2017

Year-end report January–December 2017 .... January 26, 2018

Certain definitions

In this prospectus, the following definitions are used:

"**CNY**" refers to Chinese Yuan Renminbi.

"**EUR**" refers to euro, "**EURm**" to millions of euros and "**EURbn**" to billions of euros.

"**Euroclear Sweden**" refers to Euroclear Sweden AB.

"**GBP**" refers to British Pound.

The "**Group**" refers to the group of which Essity Aktiebolag (publ) is the parent company.

"**Handelsbanken**" means, depending on the context, Svenska Handelsbanken AB (publ) (corp. reg. no. 502007-7862) or Handelsbanken Capital Markets (a part of Svenska Handelsbanken AB (publ)).

"**HKD**" refers to Hong Kong dollar, "**HKDm**" to millions of Hong Kong dollar and "**HKDbn**" to billions of Hong Kong dollar.

"**Essity**" or the "**Company**" refers to, depending on the context, Essity Aktiebolag (publ) (corp. reg. no. 556325-5511) or the group in which Essity Aktiebolag (publ) is the parent company.

"**Nasdaq Stockholm**" refers to, depending on the context, Nasdaq Stockholm AB's principal market (the Stockholm Stock Exchange) or its operator Nasdaq Stockholm AB.

"**SCA**" refers to, depending on the context, Svenska Cellulosa Aktiebolaget SCA (publ) (corp. reg. no. 556012-6293) or the group in which Svenska Cellulosa Aktiebolaget SCA (publ) is the parent company.

The "**SCA Group**" refers to the group in which Svenska Cellulosa Aktiebolaget SCA (publ) is the parent company, which depending on the context or unless otherwise stated, does not include the Essity Group.

"**SEK**" refers to the Swedish krona, "**SEKm**" to millions of Swedish krona and "**SEKbn**" to billions of Swedish krona.

"**USD**" refers to United States dollar, "**USDm**" to millions of United States dollar.

Summary

Prospectus summaries consist of information requirements presented in "items". The items are numbered in sections A–E (A.1–E.7).

The summary in this prospectus includes all of the items required in a summary for the relevant type of security and issuer. However, since certain items are not applicable to all types of prospectuses, there may be gaps in the numbering of the items.

Even if an item is required to be included in the summary for the relevant type of security and issuer, it is possible that no relevant information can be provided regarding the item. In such case, the information is replaced by a brief description of the item together with the indication "not applicable".

Section A – Introductions and warnings

A.1	**Introduction and warnings**	This summary should be read as an introduction to the prospectus. Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor. Where a claim relating to the information in this prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability may attach to those persons who produced the summary, including any translation thereof, only if the summary is misleading, inaccurate or inconsistent with other parts of the prospectus or if, together with other parts of the prospectus, it fails to provide key information to help investors when considering investing in such securities.
A.2	**Consent to use the prospectus**	Not applicable. Financial intermediaries are not entitled to use the prospectus for subsequent resale or final placement of securities.

Section B – Issuer

B.1	**Legal and commercial name**	The legal name of the Company (and its commercial name) is Essity Aktiebolag (publ), Swedish corporate ID No. 556325-5511.
B.2	**Domicile and legal form**	The registered office of the Board of Directors is situated in Stockholm, Sweden. The Company is a Swedish public limited liability company (*publikt aktiebolag*) governed by the Swedish Companies Act (*aktiebolagslagen (2005:551)*).
B.3	**Nature of operations and principal activities**	Essity is a leading global hygiene and health company that operates on the global hygiene and health market, which amounted to approximately EUR 112bn in 2016. Europe is Essity's largest market and the Company also holds strong positions in North America, Latin America and Asia. For 2016, the Company reported net sales of SEK 101bn and the number of employees as of December 31, 2016 amounted to 42,520. The Company develops, produces and sells products and solutions within the Business Areas Personal Care, Consumer Tissue and Professional Hygiene. The Business Area Personal Care includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Personal Care generated SEK 34bn in net sales in 2016, which accounted for 33% of Essity's net sales in 2016. The Consumer Tissue Business Area provides products including toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Consumer Tissue generated SEK 42bn in net sales in 2016, which accounted for 41% of Essity's net sales in 2016. The Professional Hygiene Business Area develops and sells complete hygiene solutions, including toilet paper, paper towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, sensor technology and service and maintenance to institutions and companies, amongst others. Professional Hygiene generated SEK 26bn in net sales in 2016, which accounted for 26% of Essity's net sales in 2016. Essity conducts sales of hygiene and health products in about 150 countries under many strong brands, including the leading global brands TENA and Tork, and other brands, such as Leukoplast, Libero, Libresse, Lotus, Nosotras, Saba, Tempo, Vinda and Zewa. BSN medical, which was acquired in 2017, develops, manufactures and sells products within wound care, compression therapy and orthopedics under well-known brands such as Leukoplast, Cutimed, JOBST, Delta and Actimove.

B.4a **Recent trends**

Shifts in global demographics such as population growth – primarily due to a lower infant mortality rate and increased longevity – and higher disposable income point to continued favorable growth for the personal care and tissue markets. The effect of higher disposable income is that more people prioritize hygiene and health when food and housing needs have been, or are in the process of being, satisfied. Consequently, demand for Essity's products is rising in emerging markets. Growth is also occurring in mature markets owing to lifestyle changes and innovations that lead to increased use of hygiene and health products.

During the first quarter of 2017, the European and North American markets for incontinence products in the healthcare sector displayed higher demand, but with continued price pressure as a result of fierce competition. The European and North American retail markets for incontinence products showed high growth. Emerging markets noted higher demand for incontinence products. The global market for incontinence products was characterized by a continued high level of competition. In Europe, demand for baby care was stable, while a slight decline was reported for feminine care. 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. The European market for consumer tissue demonstrated 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.

B.5 **Group**

Essity is the ultimate parent company of the Essity Group, which comprises approximately 300 legal entities in approximately 70 countries.

B.6 **Major shareholders, etc.**

In Sweden, the lowest limit for disclosure of holdings (so-called flagging) is five percent of all shares or the voting rights of all shares.

As per the date of this prospectus, Essity is a wholly-owned subsidiary of SCA. The shares in Essity are distributed to the shareholders of SCA in proportion to each shareholder's holdings of shares in SCA on the record date for distribution (June 13, 2017), as determined by the Board of Directors of SCA. Each share held in SCA entitles to one share of the same share class in Essity. The ownership structure of Essity will thus initially be the same as in SCA. The table below shows Essity's shareholders with more than five percent of all shares or the voting rights of all shares, under the assumption that the distribution of shares in Essity had been completed with April 28, 2017 as record date.

Holder/nominee/custodian	Number of shares of Class A	Number of shares of Class B	Total number of shares	Shares, %	Votes, %
AB Industrivärden	35,000,000	31,800,000	66,800,000	9.5	29.7
Norges Bank Investment Management	8,066,000	25,846,798	33,912,798	4.8	8.3
Total ten largest shareholders	**50,845,055**	**134,245,059**	**185,090,114**	**26.2**	**50.0**
Other shareholders	13,749,409	506,270,571	520,019,980	73.8	50.0
Total[1)]	**64,594,464**	**640,515,630**	**705,110,094**	**100.0**	**100.0**

1) The table above does not reflect the cancellation of 2,767,605 own Class B shares resolved upon at the Annual General Meeting of SCA on April 5, 2017. In addition, the total number of shares of Class A and Class B, respectively, in SCA and Essity, respectively, has changed due to conversions made after April 28, 2017. At the time of the prospectus, the total number of shares in SCA as well as Essity amounts to 702,342,489, whereof 64,593,939 shares of Class A and 637,748,550 shares of Class B.
Source: Euroclear Sweden, April 28, 2017.

B.7 **Selected historical key financial information**

The below selected condensed financial statements pertaining to the financial years 2014–2016 have been derived from the Group's audited consolidated financial statements for the financial years 2014–2016, which have been prepared in accordance with IFRS as adopted by the EU and audited by the Company's auditor Ernst & Young AB in respect of 2016 and by PricewaterhouseCoopers AB in respect of 2014–2015. The condensed financial statements (as well as measures defined under IFRS) pertaining to the first three months of 2017 and 2016 have (unless otherwise stated) been derived from the Group's interim report for the period January–March 2017, which has been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Swedish Annual Accounts Act (*årsredovisningslagen (1995:1554)*). The interim report has been reviewed by the Company's auditor in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity.

The prospectus also presents certain performance measures that are not defined under IFRS (alternative performance measures). These measures have not been reviewed or audited by the Company's auditors. Essity believes that these measures are helpful and commonly used by certain investors, securities analysts and other interested parties as supplementary measures of performance trends and financial position. Consequently, they should not be considered in isolation of or as an alternative to Essity's financial information prepared in accordance with IFRS.

Condensed consolidated income statement

SEKm	Jan–Mar 2017 (unaudited)	Jan–Mar 2016 (unaudited)	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Net sales	25,268	24,248	101,238	98,519	87,997
Cost of goods sold	–18,050	–17,576	–72,438	–71,898	–64,081
Items affecting comparability – cost of goods sold	–212	–22	–532	–267	–441
Gross profit	**7,006**	**6,650**	**28,268**	**26,354**	**23,475**
Sales, general and administration	–4,330	–3,960	–16,965	–16,216	–14,527
Items affecting comparability – sales, general and administration	–109	–164	–2,113	–25[1)]	–568
Share of profits of associates and joint ventures	29	32	157	198	106
Operating profit before amortization of acquisition-related intangible assets (EBITA)	**2,596**	**2,558**	**9,347**	**10,311[1)]**	**8,486**
Amortization of acquisition-related intangible assets	–21	–31	–159	–133	–126
Items affecting comparability – acquisition-related intangible assets	–88	–5	–180	–494	–
Operating profit	**2,487**	**2,522**	**9,008**	**9,684[1)]**	**8,360**
Financial items	–266	–303	–835	–828[2)]	–740
Profit before tax	**2,221**	**2,219**	**8,173**	**8,856**	**7,620**
Tax	–565	–594	–3,931	–2,278	–1,939
Profit for the period	**1,656**	**1,625**	**4,242**	**6,578**	**5,681**

1) Includes sales of securities, SEK 970m.
2) Excluding sales of securities, SEK 970m.

B.7	**Selected historical key financial information, cont'd**	See tables below

Condensed consolidated balance sheet

SEKm	Mar 31, 2017 (unaudited)	Mar 31, 2016 (unaudited)[1]	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Non-current assets					
Intangible assets	26,932	25,841	26,918	22,763	23,555
Buildings, land, machinery and equipment	47,882	44,659	47,494	42,402	43,599
Other non-current assets	4,012	3,094	3,878	3,084	5,214
Total non-current assets	**78,826**	**73,594**	**78,290**	**68,249**	**72,368**
Current assets					
Inventories	11,484	11,652	10,944	11,229	10,343
Trade receivables	15,628	14,966	15,843	14,808	14,912
Other current assets	6,259	16,360	4,963	16,237	17,036
Cash and cash equivalents	30,616	4,437	4,244	4,828	3,806
Total current assets	**63,987**	**47,415**	**35,994**	**47,102**	**46,097**
Total assets	**142,813**	**121,009**	**114,284**	**115,351**	**118,465**
Equity	**43,108**	**48,724**	**39,580**	**48,275**	**44,925**
Liabilities					
Non-current liabilities	61,449	30,992	41,971	29,170	33,068
Current liabilities	38,256	41,293	32,733	37,906	40,472
Total liabilities	**99,705**	**72,285**	**74,704**	**67,076**	**73,540**
Total equity and liabilities	**142,813**	**121,009**	**114,284**	**115,351**	**118,465**

[1] The information is not included in the Company's interim report for the period January–March 2017, but has been derived from the Company's internal accounting system.

Condensed consolidated cash flow statement

SEKm	Jan–Mar 2017 (unaudited)	Jan–Mar 2016 (unaudited)	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Profit before tax	2,221	2,219	8,173	8,856	7,620
Adjustment for non-cash items	1,545	1,211	6,791	4,635	4,384
Paid tax	–627	–662	–3,782	–2,194	–2,099
Cash flow from changes in working capital	**–252**	**–1,071**	**1,596**	**–517**	**–147**
Cash flow from operating activities	**2,887**	**1,697**	**12,778**	**10,780**	**9,758**
Cash flow from investing activities	**–1,123**	**–5,593**	**–10,119**	**–3,263**	**–4,909**
Cash flow from financing activities[1]	**24,609**	**3,496**	**–3,389**	**–6,391**	**–5,106**
Cash flow for the period	**26,373**	**–400**	**–730**	**1,126**	**–257**
[1] Including transactions between Essity and SCA excluding Essity. Net of transactions with shareholders and change of receivable from Group companies.	–716	368	–4,168	–2,607	–2,376

Key figures for the Group

SEKm if not otherwise stated (unaudited unless otherwise stated)	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Capital employed[1]	75,230	74,520	74,753	67,333	69,991
Working capital[1]	3,831	6,375	4,143	5,165	5,232
Adjusted return on capital employed (%)[1]	*15.6*	*15.5*	*16.4*	*15.1*	*14.2*
Operating cash flow	3,086	1,934	13,031	10,440	9,714
Net debt[1]	32,122	25,795	35,173	19,058	25,066
Debt/equity ratio (%)	*0.75*	*0.53*	*0.89*	*0.39*	*0.56*
Gross profit[2]	7,006	6,650	28,268	26,354	23,475
Adjusted gross profit[1]	7,218	6,672	28,800	26,621	23,916
Adjusted gross profit margin (%)[1]	*28.6*	*27.5*	*28.4*	*27.0*	*27.2*
EBITA[1]	2,596	2,558	9,347	10,311	8,486
Adjusted EBITA[1]	2,917	2,744	11,992	10,603	9,495
Adjusted EBITA margin (%)[1]	*11.5*	*11.3*	*11.8*	*10.8*	*10.8*
Operating profit[2]	2,487	2,522	9,008	9,684	8,360
Adjusted operating profit[1]	2,896	2,713	11,833	10,470	9,369
Adjusted operating margin (%)[1]	*11.5*	*11.2*	*11.7*	*10.6*	*10.6*
Organic sales (%)[1]	*1*	*4*	*3*	*6*	*2*
Adjusted profit for the period[1]	1,971	1,776	6,643	6,897	6,467
Adjusted profit before tax[1]	2,630	2,410	10,998	9,642	8,629
Cash flow from current operations[1]	2,282	1,043	8,563	7,550	6,900
Adjusted tax[1]	–659	–634	–4,355	–2,745	–2,162

[1] Non-IFRS measure, unaudited (alternative performance measure).
[2] IFRS measure, audited. The interim periods January–March 2016 and January–March 2017 are unaudited.

B.7	**Selected historical key financial information, cont'd**	**Definitions** **Adjusted EBITA margin** refers to operating profit before amortization of acquisition-related intangible assets/EBITA, excluding items affecting comparability, in percent of net sales. **Adjusted gross profit** refers to net sales minus cost of goods sold excluding items affecting comparability. **Adjusted gross profit margin** refers to adjusted gross profit as a percentage of net sales for the period. **Adjusted operating margin** refers to operating profit, excluding items affecting comparability, as a percentage of net sales for the year. **Adjusted operating profit** is calculated as operating profit before financial items and tax and excluding items affecting comparability. **Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA** is calculated as operating profit after depreciation of tangible assets but before amortization of acquisition-related intangible assets, excluding items affecting comparability. **Adjusted profit before tax** is calculated as profit before tax, excluding items affecting comparability. **Adjusted profit for the period** refers to profit for the period excluding items affecting comparability. **Adjusted return on capital employed** is accumulated return on capital employed and is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/EBITA, excluding items affecting comparability, as a percentage of average capital employed for the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA, excluding items affecting comparability, for the quarter multiplied by four as a percentage of average capital employed for the two most recent quarters. **Adjusted tax** is the tax expense for the period adjusted for the tax expense related to items affecting comparability. **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. **Cash flow from current operations** is calculated as operating cash flow less net financial items and tax payments and taking into account other financial cash flow. **Debt/equity ratio** is expressed as net debt in relation to equity. **Items affecting comparability** include costs in connection with acquisitions, restructuring, impairment and other specific events. **Net debt** is 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. **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. **Operating profit before amortization of acquisition-related intangible assets/EBITA** is calculated as operating profit after depreciation of tangible assets but before amortization of acquisition-related intangible assets. **Organic sales** is sales excluding exchange rate effects, acquisitions and divestments. **Return on capital employed, ROCE** is accumulated return on capital employed and is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/EBITA, as a percentage of average capital employed for 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 average capital employed for the two most recent quarters. **Working capital** is calculated as current operating receivables less current operating liabilities.

B.7	**Selected historical key financial information, cont'd**	**Significant changes** Net sales for the first quarter of 2017 amounted to SEK 25,268m, compared to SEK 24,248m in the first quarter of 2016, which represented an increase of SEK 1,020m or 4% over the first quarter of 2016. Exchange rate effects increased net sales by 2.6%. The acquisition of Wausau increased net sales by 0.6%. Organic sales increased by 1.0% over the first quarter of 2016, of which volume accounted for 0.7% and price/mix for 0.3%. The increase in organic sales was driven primarily by a 5.2% increase in emerging markets, which was partially offset by a 0.9% decrease in mature markets. Operating profit for the first quarter of 2017 amounted to SEK 2,487m, compared to SEK 2,522m in the first quarter of 2016, which represented a decrease of SEK 35m or 1% over the first quarter of 2016. Adjusted EBITA for the first quarter of 2017 amounted to SEK 2,917m, compared to SEK 2,744m in the first quarter of 2016, which represented an increase of SEK 173m or 6% over the first quarter of 2016. The increase in adjusted EBITA was primarily related to higher volumes, a better price/mix, cost savings, the acquisition of Wausau and the discontinuations of the Baby Care business in Mexico and the hygiene business in India. Translation exchange rate effects increased adjusted EBITA by 2%. Net sales for 2016 amounted to SEK 101,238m, compared to SEK 98,519m in 2015, which represented an increase of SEK 2,719m or 3% over 2015. Exchange rate effects decreased net sales by 3%. The acquisition of Wausau increased net sales by 3%. Organic sales increased by 3% over 2015, of which volume accounted for 2% and price/mix for 1%. The increase in organic sales was primarily driven by emerging markets, especially consumer tissue in China. Emerging markets showed an increase of 7% while mature markets were in line with the previous year. Operating profit for 2016 amounted to SEK 9,008m, compared to SEK 9,684m in 2015, which represented a decrease of SEK 676m or 7% over 2015. Adjusted EBITA for 2016 amounted to SEK 11,992m, compared to SEK 10,603m in 2015, which represented an increase of SEK 1,389m or 13% over 2015. The increase in adjusted EBITA was primarily related to higher volumes, a better price/mix, cost savings, lower raw material and energy costs and acquisition. The British pound and Mexican peso was weakened against a number of trading currencies, which had a negative impact on earnings. Translation exchange rate effects decreased adjusted EBITA by 4%. Net sales for 2015 amounted to SEK 98,519m, compared to SEK 87,997m in 2014, which represented an increase of SEK 10,522m or 12% over 2014. Exchange rate effects increased net sales by 6%. Organic sales increased by 6% over 2014, of which volume accounted for 3% and price/mix for 3%. The increase in organic sales was primarily driven by emerging markets, especially consumer tissue in China. Emerging markets showed an increase of 12% while mature markets showed an increase of 2%. Operating profit for 2015 amounted to SEK 9,684m, compared to SEK 8,360m in 2014, which represented an increase of SEK 1,324m or 16% over 2014. Adjusted EBITA for 2015 amounted to SEK 10,603m, compared to SEK 9,495m in 2014, which represented an increase of SEK 1,108m or 12% over 2014. The increase in adjusted EBITA was primarily driven by better price/mix, higher volumes and cost savings, partially offset by higher raw material costs mainly resulting from a stronger USD. Translation exchange rate effects increased adjusted EBITA by 6%.
B.8	**Selected pro forma accounts**	Not applicable. The prospectus contains no pro forma accounts.
B.9	**Profit forecast or estimated profit forecast**	Not applicable. The prospectus contains no profit forecast or calculations of anticipated earnings.
B.10	**Audit report qualifications**	Not applicable. There are no audit report qualifications.
B.11	**Insufficient working capital**	Not applicable. Essity assesses that the working capital is sufficient for the present requirements during the next twelve months.

Section C – Securities

C.1	**Securities admitted to trading**	Shares of Class A (ISIN code SE0009922156) and shares of Class B (ISIN code SE0009922164) in Essity.
C.2	**Currency**	The shares are denominated in SEK.
C.3	**Number of shares issued**	As per the date of this prospectus, the Company's registered share capital is SEK 2,350,366,980, represented by 702,342,489 shares whereof 64,593,939 shares of Class A and 637,748,550 shares of Class B. All shares are fully paid. Each share has a quota value of approximately SEK 3.35 (rounded to two decimals).
C.4	**Rights attached to the securities**	Each share of Class A carries ten votes and each share of Class B carries one vote at the General Meeting. If shares of Class C are issued, each share of Class C would carry one vote. Should the Company decide to issue shares of Class A, Class B and Class C, holders of shares of Class A, Class B and Class C shall have preferential rights to subscribe in proportion to their existing shareholdings (primary preferential right). Shares that are not subscribed for with primary preferential right shall be offered to all shareholders for subscription (secondary preferential right). Should the Company resolve to, through a cash or set off issue, only issue shares of Class A, Class B or Class C, all shareholders shall, regardless of whether they own shares of Class A, Class B or Class C, have preferential right to subscribe for new shares in proportion to their existing shareholdings. Shares of Class A and Class B carry the same right to share in the Company's profit and any surplus in the event of liquidation. Shares of Class C, if such shares are issued, carry entitlement annual dividends from the Company's distributable earnings in an amount corresponding to STIBOR for a term of 6 months from May 1 of a certain year until and including May 1 of the subsequent year and calculated on the ratio value of the Company's share. Holders recorded as owners of shares in the register of shareholders maintained by Euroclear Sweden on the record date established by the General Meeting will be entitled to receive dividends.
C.5	**Restrictions on the free transferability**	Not applicable. The shares are not subject to restrictions on the free transferability.
C.6	**Admission to trading**	Essity has applied for a listing of the Company's shares on Nasdaq Stockholm. Nasdaq Stockholm's listing committee decided on May 30, 2017 to approve Essity's application of admission of the Company's shares to trading on Nasdaq Stockholm provided that certain customary conditions are fulfilled. The first day of trading is expected to be June 15, 2017.
C.7	**Dividend policy**	According to the dividend policy adopted by the Board of Directors, 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.

Section D – Risks

D.1	**Key risks specific to Essity or its industry**	Prior to any investment decision, it is important to carefully analyze the risk factors considered to be of importance in relation to Essity and the future performance of the shares. Set out below is a summary of the key risks specific to the industry and the operations:
		Essity is exposed to changes in general economic and political conditions: The demand for Essity's products depends, among other things, on general macroeconomic trends. Any uncertainties regarding future economic prospects, including political unrest, that affect consumer spending habits could have an adverse effect on consumer purchases of Essity's products. Considering that a substantial proportion of Essity's revenue derives from sale of products that are subject to governmental subsidies, any decrease in reimbursement levels due to e.g. governmental cost saving initiatives, may negatively impact consumers' choices to purchase the Company's products. Furthermore, changes in the political situation in a region or country, or political decisions affecting an industry or country, could also materially impact sales of Essity's products. The above events could have an adverse effect on Essity's business, financial condition and results of operations.
		Essity's operations in certain emerging economies may be adversely affected by political, economic and legal developments in these countries: Essity's business operations are expanding in countries in which the political, economic, legal and regulatory systems are less predictable than in countries with more developed institutional structures. Political or economic upheaval, changes in laws and other factors (such as foreign exchange controls and local labor hiring requirements) could have an adverse effect on Essity's business, financial condition and results of operations and/or impair the value of its investments in such countries.
		Competition, changes in consumer patterns and the inability to innovate and keep up with consumer patterns and trends may have an adverse effect on the sales of Essity's products: Essity experiences competition in each of its Business Areas. The competition is driven by, among other things, brand recognition and loyalty, as well as product innovation, quality and performance, price, service, proximity to customers and distribution capabilities. It is not certain that Essity is successful in developing and introducing new or improved products necessary for achieving and/or maintaining its position within different product categories. An increased offering of products from Essity's competitors could lead to Essity experiencing pricing pressure to remain competitive, which could reduce its sales. In addition, Essity's success depends on the value and attractiveness of its brands and products to consumers around the world. Increased competition, as well as adverse developments involving consumer demand and other factors that could impact the price or competitiveness of the Company's products, could have an adverse effect on Essity's business, financial condition and results of operations.

D.1	**Key risks specific to Essity or its industry, cont'd**	**Essity is subject to competition law risks:** Essity is subject to competition laws in the jurisdictions in which it operates. Competition authorities have the power to initiate ex-post regulatory procedures and to impose fines and other sanctions as a result of non-compliance with relevant regulatory requirements. Essity's market strength in some relevant markets may also entail restrictions for the activities of the Company. Merger control regulations also put constraints on potential strategic acquisitions within the European Union as well as in some other markets.
		Damage to the reputation of Essity or to one or more of the Group's brands could have an adverse effect on Essity's business: Developing and maintaining Essity's reputation, including the brands within the Group's portfolio, is a critical factor for Essity's relationship with consumers, customers, suppliers and others. An inability to address adverse publicity or other issues, including concerns about product safety, quality or efficacy, real or perceived, could negatively impact sentiment towards Essity and its products and brands. Further, if Essity is associated with unethical business practices and violations of human rights, it may suffer damage to its reputation and incur fines and other legal sanctions as well as decrease Essity's sales, which could have an adverse effect on Essity's business, financial condition and results of operations.
		Essity derives a substantial portion of its sales from contracts with public institutions and depends on its ability to win or renew contracts on favorable terms: Essity derives a substantial portion of its sales from public institutions (including public hospitals and healthcare facilities), pursuant to procurement contracts with such institutions. When these contracts expire, the sale of relevant products and solutions are normally subject to a new tender process in which Essity is required to compete in order to renew the contract. There is a risk that Essity will not be able to renew its contracts or win new tenders on acceptable terms, or at all, which could have an adverse effect on Essity's business, financial condition and results of operations.
		Essity is exposed to risks in relation to acquisition and integration of new businesses and divestment of existing businesses, as well as in relation to restructuring of current and future operations and facilities: Success in Essity's acquisition strategy depends on several factors, including the ability to identify suitable targets, reach agreements on acceptable acquisition terms and secure financing for such acquisitions. There are also business risks, tax risks, legal risks and financial risks associated with acquiring and integrating companies into Essity's existing business operations, including, without limitation, exposure to unknown obligations as well as acquisition and integration costs that are higher than expected. Essity's assessments and assumptions regarding possible or implemented acquisitions may prove to be incorrect. Further, in the future, Essity may find it difficult to divest operations or assets or might fail to successfully complete such divestments on terms favorable to Essity. Any future changes, such as the closure or starting up of production facilities, might negatively affect employee, supplier and customer relationships and entail realignment difficulties, longer lead times and production interruptions. These factors could have an adverse effect on Essity's business, financial condition and results of operations.
		Failure to protect the Company's intellectual property rights could have an adverse effect on Essity's business, financial condition and results of operations: If Essity is unsuccessful in protecting its intellectual property rights or becomes subject to claims due to infringements upon the intellectual property rights of third parties, this could have an adverse effect on Essity's competitiveness. Moreover, there is a risk that Essity may be found or is alleged to have infringed upon intellectual property rights of third parties. Third parties may take legal action for alleged infringement of these intellectual property rights and any such claims could result in costs for defending or settling any disputes, and may result in a delay or may prevent the delivery of Essity's products. Such events could have an adverse effect on Essity's business, financial condition and results of operations.
		Reduced credit rating for Essity's long-term debt could have a negative effect on financing costs and access to financing: Essity's borrowing costs and the access to financing depend significantly on the Company's credit ratings. A reduction in Essity's credit ratings could increase its borrowing costs and limit the access to the capital markets and other sources of financing. This, in turn, could reduce profits and have an adverse effect on Essity's business, financial condition and results of operations.
		Exchange rate fluctuations could adversely affect Essity's financial condition and results of operations: Exchange rate movements in export revenues and import expenses could negatively impact Essity's operating profit and the cost of non-current assets. Further, Essity's result is affected by the translation of foreign subsidiaries' income statements to SEK. There is a risk that current or future hedging measures will fail to provide Essity with sufficient protection against the adverse effects of exchange rate fluctuations. Any incorrect assessments affecting such assumptions or forecasts may have an adverse effect on Essity's business, financial condition and results of operations.
		Interest rate increases may have a negative impact on Essity: Essity is exposed to risk stemming from interest rate fluctuations, which could adversely affect its net financial income. Interest rates fluctuate based on a number of factors beyond Essity's control, including but not limited to, the macro-economic policies of governments and central banks in jurisdictions in which Essity conducts its operations. Any increase in rates could increase Essity's interest rate obligations, which may have an adverse effect on Essity's business, financial condition and results of operations.

D.3	**Key risks specific to the securities**	Set out below is a summary of the key risks specific to Essity's shares: **Investments in shares and ADSs are subject to risk and investors may lose their investment:** Since an investment in shares and ADSs can increase or decrease in value, there is a risk that an investor will not regain the capital invested. The price trends of Essity's shares and ADSs will further depend on a number of factors, some of which are Essity specific and others linked to the stock market as a whole or otherwise outside the Company's control (such as holders' sale of substantial holdings). **Essity's potential to pay dividends to its shareholders depends on the Group's future earnings, financial condition, cash flow, working capital requirements and other factors:** Future dividends, and the extent of any such dividends, depend on Essity's future earnings, financial condition, cash flow, working capital requirements and other factors and there is a risk that Essity's earnings do not permit dividends in the future. **Shareholders holding substantial number of votes in Essity may exercise significant influence over Essity:** A shareholder with a substantial holding of voting rights (such as a high portion of Class A shares) may be in a position to exercise significant influence over Essity and the outcome of matters referred to Essity's shareholders for resolution, and it might be that the interests of such shareholder(s) diverge from or compete with those of Essity or other shareholders.

Section E – Offer

E.1	**Net proceeds and expenses**	Not applicable. The Company issues no new securities in connection with the admission of the shares to trading and will thus not receive any proceeds or have any expenses attributable to the issuance of shares. Essity's share of the total costs for the conceived split of the SCA Group is estimated to be approximately SEK 820m, including project and listing costs of approximately SEK 90m, one-time foreign tax on non-current assets outside Sweden of approximately SEK 450m, and brand-related costs of approximately SEK 280m. The transaction costs have affected and will affect Essity's financial results for both 2016 and 2017. Of the total costs, approximately SEK 80m are expected to affect financial items and approximately SEK 740m are expected to affect items affecting comparability. Of the total costs, SEK 74m affected the fourth quarter of 2016, of which SEK 68m affected financial items and SEK 6m affected items affecting comparability.
E.2a	**Reasons for the offer, use of proceeds**	Not applicable. The prospectus is not ascribable to any offer. Essity is a leading global hygiene and health company and the split from the SCA Group with an independent listing of Essity is a natural step in the development of the hygiene business. A split from the SCA Group and a distribution and listing of the shares in Essity is expected to increase focus, customer value and development opportunities and to enable Essity to successfully realize its strategies under the leadership of a separate and dedicated management team, with a separate Board of Directors and independent access to capital. The distribution of Essity is expected to increase shareholder value over the long term. A listing also provides an opportunity for current and new shareholders to invest directly in Essity.
E.3	**Terms and conditions of the offer**	Not applicable. The prospectus is not ascribable to any offer. The shares in Essity are distributed to the shareholders of SCA in proportion to each shareholder's holdings of shares in SCA on the record date for distribution (June 13, 2017), as determined by the Board of Directors of SCA. Each share of Class A in SCA entitles to one share of Class A in Essity and each share of Class B in SCA entitles to one share of Class B in Essity. As of April 28, 2017 there were 2,408,742 American Depositary Shares outstanding in SCA, each representing one B share in SCA. To the extent Essity ADSs are able to be distributed under the terms of the SCA Deposit Agreement, it is anticipated that each holder of SCA ADSs will be entitled to receive one Essity ADS for each SCA ADS held as of the Essity ADS Record Date. Each Essity ADS represents one B Share in Essity.
E.4	**Interests material to the offer**	Not applicable. The prospectus is not ascribable to any offer.
E.5	**Lock-up agreements**	Not applicable. There are no lock-up agreements in place in connection with the admission to trading of the Company's shares.
E.6	**Dilution**	Not applicable. The prospectus is not ascribable to any offer.
E.7	**Expenses charged to the investor**	Not applicable. The prospectus is not ascribable to any offer. No expenses are charged to the shareholders in connection with the admission to trading of the Company's shares. Essity will be required to pay all fees for general depositary services provided by the Essity Depositary in the Essity Deposit Agreement. In connection with receiving Essity ADSs, SCA ADS Holders will be charged, have deducted or be required to pay any applicable fees, charges and expenses of the SCA Depositary or the Essity Depositary and any applicable taxes or other governmental charges.

Risk factors

Any investment decision is associated with risk. It is important to carefully analyze the risk factors considered to be of importance in relation to the Company and the future performance of its shares. The risks currently considered to be of importance to the Company are described below, without being ranked in any particular order of importance. There are risks both regarding circumstances linked to Essity and/or the industry in which it operates and those that are of a more general nature, as well as risks associated with the shares. Some risks are beyond Essity's control. The description below does not purport to be complete and all risk factors cannot be predicted or described in detail. Therefore, an overall assessment must also include other information in the prospectus, as well as a general assessment of extraneous factors. The below risks and uncertainty factors may have an adverse effect on Essity's business, financial condition and/or results of operations. They may also cause the shares in Essity to decrease in value, which may result in Essity's shareholders losing all or part of their invested capital. Additional factors of which Essity is currently unaware, or which currently are not deemed to represent risks, may also have corresponding negative effects.

Risks related to Essity's operations and its industry

Essity is exposed to changes in general economic and political conditions

Essity conducts operations in several parts of the world and, similar to other companies, is affected by general global economic, financial and political circumstances. The demand for Essity's products depends, among other things, on general macroeconomic trends, including recession, inflation, deflation, general weakness in retail markets and changes in consumer purchasing power. Any uncertainties regarding future economic prospects, including political unrest, that affect consumer spending habits could have an adverse effect on consumer purchases of Essity's products and adversely affect Essity's business, financial condition and results of operations.

Additionally, considering that a substantial proportion of Essity's revenue derives from sale of products that are subject to governmental subsidies, any decrease in reimbursement levels due to e.g. governmental cost saving initiatives, may negatively impact consumers' choices to purchase the Company's products.

Furthermore, changes in the political situation in a region or country, or political decisions affecting an industry or country, could also materially impact sales of Essity's products. These include recent political events, such as the United Kingdom's vote to leave the European Union and the outcome of the United States presidential election, that have created uncertainty regarding for example future European Union and United States economic and trade policies.

Any adverse development involving global or regional factors of the type mentioned above could have an adverse effect on Essity's business, financial condition and results of operations.

Essity's operations in certain emerging economies may be adversely affected by political, economic and legal developments in these countries

Essity's business operations are expanding in countries in which the political, economic, legal and regulatory systems are less predictable than in countries with more developed institutional structures. Political or economic upheaval, changes in laws and other factors (such as foreign exchange controls and local labor hiring requirements) could have an adverse effect on Essity's business, financial condition and results of operations and/or impair the value of its investments in such countries.

The establishment or enforcement of foreign exchange restrictions could prevent Essity from receiving profits from, or from selling, its investments in these countries. For example, China, where Essity through its ownership in Vinda International Holdings Ltd ("**Vinda**") is one of the largest providers of hygiene products, imposes foreign exchange controls on foreign companies.

Competition, changes in consumer patterns and the inability to innovate and keep up with consumer patterns and trends may have an adverse effect on the sales of Essity's products

Essity experiences competition in each of its Business Areas. There are several major competitors, of various number and size depending on the Business Area, some of which have larger production capacity than the Essity entity operating in that Business Area. Also, retailers' and distributors' marketing of own branded products (private label) result in competition with Essity branded products. The competition is driven by, among other things, brand recognition and loyalty, as well as product innovation, quality and performance, price, service, proximity to customers and distribution capabilities. It is not certain that Essity is successful in developing and introducing new or improved products as necessary for achieving and/or maintaining its position within different product categories. If Essity's competitors were to increase their production capacity or marketing activities and/or sell substitute products (for example different products with a similar function as Essity's products, such as cloth diapers, cloth rags for household or industrial cleaning, or completely different solutions to the needs of customers and consumers, such as electric hand dryers), the increased supply in the market may lead to Essity experiencing pricing pressure to remain competitive, which could reduce its sales. Inherent risks in Essity's competitive strategy include uncertainties concerning trade and customer acceptance, the effects of consolidation of retailers and other customers and competitive reactions.

In addition, Essity's success depends on the value and attractiveness of its brands and products to consumers around the world and on its ability to innovate and remain competitive. Consumer tastes, preferences and behaviors with regards to Essity's products are constantly changing and the Company's failure to anticipate, identify or react to these changes could result in a reduced demand for the Company's products, which would adversely affect its operating results and profitability.

Competitive pressures, as well as adverse developments involving consumer demand and other factors that could impact the price or competitiveness of the Company's products, could have an adverse effect on Essity's business, financial condition and results of operations.

Essity is subject to competition law risks

Essity is subject to competition laws in the jurisdictions in which it operates. Competition authorities have the power to initiate ex-post regulatory procedures and to require a party to cease applying contractual terms, prices and practices that are found to be anti-competitive. Competition authorities also have the power to impose fines and other sanctions as a result of non-compliance with relevant regulatory requirements. Essity is currently subject to investigations by competition authorities in certain countries. The outcomes of these investigations are uncertain. In addition, in 2016 competition authorities have imposed sanctions on Essity in Spain and Poland and on a joint venture in Colombia to which Essity is a party. The decisions have been appealed by Essity. Essity has made provisions in its financial statements of SEK 556m as of March 31, 2017 in order to cover litigation costs and potential sanctions related to these investigations and litigations. There is a risk that the measures taken by Essity, and that may be taken henceforth, to handle issues related to competition law have not prevented instances of non-compliance in the past or that no such non-compliance may occur in the future.

Essity's market strength in some relevant markets may also entail an obligation to comply with the competition law rules prohibiting the abuse of a dominant position or otherwise restricting the activities of the Company. Merger control regulations also put constraints on potential strategic acquisitions within the European Union as well as in some other markets.

Essity is dependent on certain key customers and distributors

Successful customer relationships are vital to Essity's business and continued growth. Maintaining strong relationships with its existing customers and building relationships with new customers are necessary to ensure that Essity's brands are well presented to consumers and available for purchase at all times. The strength of Essity's customer relationships also affects the ability to obtain competitive pricing and trade terms.

Retail customers represent Essity's single largest customer group and thus the performance of this market has considerable impact on Essity's overall performance. In 2016, approximately 63% of Essity's sales were made to the retail trade, through both Essity's brands and retailers' brands. Essity also relies on other distributors or retailers to access certain markets. If such distributors or retailers are not successful in their sales of Essity's products or if they fail to access these markets, this could consequently impact Essity's overall performance and thereby also have an adverse effect on Essity's business, financial condition and results of operations.

There is a general trend towards market consolidation taking place within several of Essity's sales channels, which has resulted in an increased dependence on certain customers. For example, in the retail trade sector, this trend has resulted in fewer retail companies at a national and regional level. Essity also uses distributors, such as Bunzl, Sysco, Network and INPACS, mainly for the Professional Hygiene Business Area. In 2016, Essity's ten largest customers accounted for 21% of Essity's total net sales. The single largest customer accounted for 4% of the net sales. Most of these customers were retail companies. Within the B2B-business of the Professional Hygiene Business Area, there is also an important reliance on customers such as large restaurant chains (for example Burger King and McDonalds). The ten largest customers also include some large distributors of the Professional Hygiene Business Area. The general market consolidation and increase in dependence could have an adverse effect on Essity's business, financial condition and results of operations.

Essity is dependent on certain key suppliers and any disruptions in the supply as well as price adjustments could result in increased costs as well as adversely affect Essity's ability to deliver orders to its customers

Essity is dependent on certain suppliers for raw materials, key input goods (such as pulp, superabsorbent and non-woven materials), finished goods (such as wipes, wipers, soap, lotions and wound care products) as well as for its supply of energy (such as electricity, natural gas and to some extent petroleum-based fuels), and such raw materials and input goods account for a significant part of Essity's total costs. Further, Essity's supply chain network is exposed to potentially adverse events, such as physical disruptions, inefficient ordering and forecasting processes, environmental and industrial accidents or bankruptcy of key suppliers, which could impact Essity's ability to deliver orders to its customers.

The loss of key suppliers or the inability of key suppliers to provide input goods could also result in costs for Essity or in problems in its manufacturing resulting in an inability for Essity to deliver products to its customers, which could have an adverse effect on Essity's business, financial condition and results of operations.

Further, the market prices of many of the input goods and raw materials (including energy) used in the manufacturing of Essity's products fluctuate over time due to, among other things, availability, supply and demand, energy costs, transportation costs, exchange rate fluctuations as well as local and national regulatory decisions. If Essity is not able to manage costs, the impact of price movements on input goods may adversely affect Essity's business, financial condition and results of operations.

Damage to the reputation of Essity or to one or more of the Group's brands could have an adverse effect on Essity's business

Developing and maintaining Essity's reputation, including the brands within the Group's portfolio, is a critical factor for Essity's relationship with consumers, customers, suppliers and others. An inability to address adverse publicity or other issues, including concerns about product safety, quality or efficacy, real or perceived, could negatively impact sentiment towards Essity and its products and brands, and Essity's business, financial condition and results of operations could suffer. Consumers' increasing reliance on social media for information could heighten the risk of adverse publicity, potentially with negative perception of Essity's products or brands. Essity's business, financial condition and results of operations could also be adversely affected by the effects of a significant product recall, product-related litigation, allegations of product tampering or contamination, the distribution and sale of counterfeit products or a failure or breach of Essity's information technology systems.

Further, Essity is dependent on the marketing of its brands, products and solutions in order to promote its offering and to maintain and enhance the strength of the brands used within the Group. The Company's marketing materials are often based on market data and other statistics obtained from external reliable sources, but compiled, analyzed and presented by the Company itself, such as statements on, among other things, Essity's market position in various jurisdictions or product categories. There is a risk that conclusions made in such market material may be challenged by competitors and others, which could result in claims or negative publicity. Any such claims or negative publicity, irrespective of being accurate or not, could damage Essity's reputation and have an adverse effect on the Company's business.

In addition, Essity conducts sales in about 150 countries through its subsidiaries and together with various business partners in markets and environments where unethical business practices and violations of human rights may occur. The working practices and cultures of such partners can increase the risk of being associated with such practices, if any. These risks may also be increased in connection with the Company's acquisition of businesses that have operations in countries typically associated with unethical business practices and human rights violations. If Essity is associated with such practices, it may suffer damage to its reputation and incur fines and other legal sanctions as well as decrease Essity's sales, which could have an adverse effect on Essity's business, financial condition and results of operations.

Essity's continued long-term success is dependent on its employees and management

Essity's access to skilled and motivated employees and competent managers is essential to achieve established strategic and operational objectives. Essity is particularly dependent on its Executive Management team and on certain key employees. It is therefore important that Essity is successful in attracting and retaining employees with appropriate skills in the future. This may be especially challenging in Essity's key emerging markets where there can be a high level of competition in a limited talent pool. The loss of management or other key personnel or the inability to identify, recruit and retain qualified personnel could make it difficult to manage Essity's business and could adversely affect Essity's financial condition and results of operations.

Unsuccessful product category expansion as well as unsuccessful expansion into new geographical markets may have an adverse effect on Essity's business

Essity's business strategy includes expansion into new product categories as well as expansion of new types of products within existing product categories. For example, in April 2017, Essity completed the acquisition of BSN medical, a provider of medical solutions products, which is a new product market for Essity. Also, during 2016, Essity further developed its customer and consumer offering and launched 23 new innovations. There is a risk that Essity's current or future expansion in these or other categories will not be successful. If Essity's future product expansion is unsuccessful, this may have an adverse effect on Essity's business, financial condition and results of operations.

The sales of Essity's products in new geographical markets are managed by agents or by subsidiaries within the Group. Essity is also involved in manufacturing operations in certain foreign markets, through joint ventures in cooperation with other manufacturers or wholly-owned subsidiaries. The entering into new geographical markets entails risk related to, among other things, local legal requirements, business climate and common business practices and ethics. If the conditions in these jurisdictions change or differ from Essity's expectations, an expansion could involve new and increased risks for Essity, and consequently have an adverse effect on Essity's business, financial condition and results of operations.

Essity derives a substantial portion of its sales from contracts with public institutions and depends on its ability to win or renew contracts on favorable terms

Essity derives a substantial portion of its sales from public institutions (including public hospitals and healthcare facilities), pursuant to procurement contracts with such institutions. When these contracts expire, the sale of relevant products and solutions are normally subject to a new tender process in which Essity is required to compete in order to renew the contract. There is a risk that Essity will not be able to renew its contracts or win new tenders on acceptable terms, or at all.

In tender processes, Essity must compete primarily on the basis of pricing, quality of products and environmental impact of solutions in order to win or renew contracts, but tender processes also focus on other considerations, such as market competition concerns, which may be partly or wholly outside the Company's control. Essity's failure to win or renew contracts on equally or more favorable terms, or at all, or to offset reduced prices through increased productivity could have an adverse effect on Essity's business, financial condition and results of operations.

Essity is exposed to risks in relation to acquisition and integration of new businesses and divestment of existing businesses, as well as in relation to restructuring of current and future operations and facilities

Success in Essity's acquisition strategy depends on several factors, including the ability to identify suitable targets, reach agreements on acceptable acquisition terms and secure financing for such acquisitions. There is a risk that Essity will not be able to source a sufficient number of attractive targets available for acquisition, negotiate favorable terms for future acquisitions or secure the necessary financing. There are also business risks, tax risks, legal risks and financial risks associated with acquiring and integrating companies into Essity's existing business operations, including, without limitation, exposure to unknown obligations as well as acquisition and integration costs that are higher than expected.

Essity's assessments and assumptions regarding possible or implemented acquisitions (including assumptions regarding synergies) may prove to be incorrect or that obligations, contingent liabilities or other risks previously unknown to Essity might arise. Likewise, Essity's assessments and assumptions concerning the return on investments or the possibilities and prospects for organic growth may prove to be incorrect.

Essity periodically divests operations that no longer fit Essity's strategy. Several factors affect success in any divestment, including Essity's ability to identify a buyer and negotiate acceptable terms. In addition, there is a risk that Essity might be required to provide certain warranties and undertakings in connection with such divestments. In the future, Essity may find it difficult to divest operations or assets or might fail to successfully complete such divestments on terms favorable to Essity.

Further, Essity has historically implemented a number of structural changes, such as moving or closing down production facilities and starting up new facilities, and has expanded geographically. Any future changes, such as the closure or starting up of production facilities, might negatively affect employee, supplier and customer relationships and entail realignment difficulties, longer lead times and production interruptions. These factors could have an adverse effect on Essity's business, financial condition and results of operations.

Disruptions to operations could have an adverse effect on Essity's operations and customer service levels

Essity's manufacturing processes rely on a production chain that is dependent on the continuous operation of critical production equipment, including machinery, computer and electrical equipment as well as site infrastructure and supply of raw materials and energy. Therefore, production downtime may occur as a result of unanticipated technical failures or other events. Disruptions in any part of the production chain can rapidly have serious repercussions on the entire process, including the Company's ability to distribute products to its customers. Essity has a number of production facilities across over 30 countries and many of these facilities carry out production on an ongoing basis. Given the nature of the Company's business, production facilities, including warehouses, have experienced, and may in the future experience, plant shutdowns or periods of reduced production as a result of such equipment failures or accidents (such as fires experienced in the Group's warehouses in Mannheim 2004 and in

Mexico 2016). Operations (including production and distribution) may also be disrupted for a variety of other reasons including civil unrest or civil disobedience, natural disasters (for example, earthquakes, flood, snow, fires or other natural disasters or other force majeure events), cyber-attacks, terrorist attacks, flooding, release of substances harmful to the environment or health, strikes, transportation disruptions or other events occurring in the regions where it carries out its operations.

Furthermore, accidents may lead to production downtimes with respect to certain machinery or plants or even plant closures, including for the duration of any ongoing investigation, which could also impact the Company's ability to distribute its products. To the extent disruptions cause a loss of production that are not covered by the Company's insurance protection or that cannot be compensated for by increasing production in unaffected facilities, such disruptions could have an adverse effect on Essity's business, financial condition and results of operations.

Essity is subject to stringent health and safety laws and regulations that may give rise to significant costs and liabilities

Essity is subject to a broad range of health and safety laws and regulations in each of the jurisdictions in which it operates and these laws and regulations impose increasingly stringent health and safety protection standards. The costs of complying with, and the liabilities imposed pursuant to, health and safety laws and regulations could be significant, and failure to comply could result in the assessment of civil and criminal penalties, suspension of permits, temporary or permanent closure of production facilities or claims or lawsuits by third parties.

Given the nature of its operations, Essity is subject to the risk of industrial accidents that could lead to production stoppages, the loss of key assets and employees (and those of sub-contractors and suppliers) or injuries to persons living near the affected sites. The occurrence of any of these events could prevent or delay production, increase production costs and result in injury or death to employees, damage to property and liability for Essity, as well as substantially harm Essity's reputation, which could have an adverse effect on Essity's business, financial condition and results of operations.

Essity is exposed to environmental risks which may have an adverse effect on Essity's business, financial condition and results of operations

Essity's operations and the products used in the production processes have an impact on air, water, land and biological processes and Essity is subject to a wide variety of environmental regulations in multiple jurisdictions around the world. Compliance with these rules and regulations at the federal, state, provincial and local levels is important for Essity's ability to continue its operations. As these environmental regulations are amended or as their application or enforcement is changed, significant costs in complying with new and more stringent regulations may be imposed on Essity. There is a risk that Essity will incur significant additional environmental costs and liabilities in the future (which may include paying for remediation of contaminations, for example if a certain production site is closed and the land will be used for other purposes). In addition, it is not certain that the businesses Essity has acquired, prior to the acquisition, always complied with all applicable environmental regulations.

Further, violations of applicable environmental laws and regulations could result in civil and criminal penalties, revocation of permits and licenses, the curtailment or cessation of operations, third-party claims or any combination thereof, any of which could have an adverse effect on Essity's business, financial condition and results of operations.

Disruptions and faults in Essity's IT systems as well as violations of data protection legislation may have an adverse effect on Essity's business, financial condition and results of operations

Essity relies on IT systems (including its financial systems and logistics systems) for its day-to-day operations. Any disruptions or faults in these critical systems, including those caused by sabotage, computer viruses, operator errors, software errors or termination of IT agreements could impact Essity's business and the reporting of its results, and consequently have an adverse effect on Essity's business, financial condition and results of operations.

Disruption or faults in the IT systems may also impact Essity's handling of personal data. Essity's operations are subject to data protection legislation in various jurisdictions, for example in the European Union and in the United States. Relevant rules require, among other things, that requisite routines be in place for the processing, storage and deletion of personal data; that individuals be correctly informed regarding Essity's processing of personal data; and that Essity has put in place the required procedures to comply with applicable rules. There is a risk that the measures taken by Essity in order to adjust and improve its processes and routines prove to be insufficient, and that unauthorized disclosure or incorrect processing of personal data occurs. This may give rise to adverse publicity and damage Essity's reputation and lead to loss of customers and revenue. It may also result in fines, claims in damages from individuals and injunctions from supervisory authorities to effect rectification. Non-compliance with data protection legislation could thereby have an adverse effect on Essity's business, financial condition and results of operations.

Essity employs a largely unionized labor force and Essity could be subject to organized labor actions, including work stoppages that could have an adverse effect on its business

Union involvement varies among Essity's countries of operation, but on average 58% of Essity's employees are covered by collective agreements. There is a risk that Essity will not be able to maintain its stable relations with unions nor to negotiate salary agreements or labor conditions that meet the union demands. This could, in its turn, entail that Essity becomes subject to strikes and/or work stoppages before or during the negotiation process. Historically, the Group has experienced strikes and other incidents leading to work stoppages. For example, during first half of 2016 one of Essity's joint ventures in Turkey experienced labor actions causing major disturbances to the production. Any such incidents could have an adverse effect on Essity's business, financial condition and results of operations.

Certain operations carried out by Essity require permits, licenses, authorizations, approvals and notifications

For certain parts of Essity's operations and for the manufacturing, marketing and sale of certain products, Essity is required to obtain permits, licenses, authorizations and/or approvals from or to make notifications to various governmental authorities. For example, Essity is required to obtain permits under applicable environmental legislation for its operations related to paper manufacturing. Also, health care products from BSN medical are classified and CE marked under the European Union Medical Device Directive and respective national legislation, and similarly, in the United States, BSN medical's products are regulated as medical devices under the jurisdiction of the United States Food and Drug Administration (FDA). In order for Essity to conduct its operations, the Company is dependent on being able to procure and maintain permits, licenses, authorizations and/or approvals or to duly notify the relevant authority. It is possible that permits, licenses, authorizations and/or approvals required for Essity in order to carry out its operations cannot be procured on reasonable terms or at all. It may also be uncertain whether Essity, following an application, will ultimately be granted such permit, license, authorization or approval.

In the event notifications or the granting or renewals of permits, licenses, authorizations and/or approvals necessary for the operations are delayed, if it is unsuccessful or if the conditions set forth in the permits, licenses, authorizations and/or approvals obtained by Essity cannot be fulfilled, or if Essity conducts operations without the necessary notifications, permits, licenses, authorizations and/or approvals, this may have an adverse effect on Essity's business, financial condition and results of operations.

Essity is exposed to corporate governance and policy risks

Essity faces the risk that its employees and Executive Management team make decisions that do not comply with Essity's strategy, internal guidelines or policy documents. Further, employees and the Executive Management team of Essity may commit acts that are unethical, illegal or that otherwise conflict with applicable laws and regulations. If Essity's internal controls and other compliance measures prove insufficient, Essity could suffer damage to its reputation, be subject to fines and regulatory penalties and suffer an adverse effect on its business, financial condition and results of operations.

Essity may be adversely affected by product liability claims against it, or other product-related claims or recalls

Given the nature of Essity's operations, Essity has been, and may in the future become subject to product liability and other claims and recalls if the products it sources and produces are defective or are alleged to be defective or cause or are alleged to have caused personal injury or property damage. Damage to persons or property caused by a defective, wrongfully designed or wrongfully assembled product falling short of acceptable quality standards, may thus have a negative effect on Essity's business, financial condition and results of operations. If Essity is made aware of a large-scale product defect, it may be required to recall all such affected products. Further, Essity may be unable to be fully indemnified for its losses arising from defects caused by its business partners, including its own suppliers. Moreover, there is a risk that product liability claims, other product-related claims or recalls cannot be fully covered by Essity's insurance policies. Product liability claims, warranty claims and recalls could have an adverse effect on Essity's business, financial conditions and results of operations.

Failure to protect intellectual property rights could have an adverse effect on Essity's business, financial condition and results of operations

Essity considers its current and future intellectual property as important to its success and relies on a combination of patents, trademarks and contractual rights to protect its intellectual property rights. However, there is a risk that the measures Essity takes in order to keep its know-how confidential, to develop new products and technologies in reliance of non-disclosure agreements and certain other protective agreements, and overall to protect its intellectual properties, will not provide an effective protection for its intellectual properties. Competitors may misappropriate intellectual property owned by Essity, disputes as to the ownership rights of intellectual property may arise or intellectual property may otherwise become known or independently developed by competitors.

The laws of some foreign jurisdictions in which Essity operates do not protect intellectual property rights to the same extent as do the laws of Sweden, and therefore Essity's means of protecting its proprietary rights abroad may not be adequate. Moreover, there is a risk that Essity may be found or is alleged to have infringed upon intellectual property rights of third parties. For example, certain technologies and processes licensed by Essity may be subject to the intellectual property rights of third parties. Third parties may take legal action for alleged infringement of these intellectual property rights and any such claims could result in costs for defending or settling any disputes, and may result in a delay or may prevent the delivery of Essity's products. Failure to protect Essity's intellectual property or resulting claims of infringement on third-party intellectual property rights could have an adverse effect on Essity's competitiveness and thus on its business, financial condition and results of operations.

Essity's tax burden could increase due to changes in tax laws or regulations or their interpretation or application

Essity's tax burden could significantly increase due to changes in tax laws or regulations. Changes in the tax rules may adversely impact Essity both as one-time effects, such as revaluations of tax assets and liabilities, and on a recurring basis. There are also risks in the interpretation or application of tax rules that may result in an increased tax burden for Essity. Additional taxes (including, but not limited to, income taxes, withholding taxes, real estate taxes, capital taxes, stamp duties and value-added taxes) could be assessed against Essity and lead to an increase in Essity's tax liabilities.

Due to the international nature of Essity's business, Essity is subject to the various tax laws and regulations of several jurisdictions. Both the rules governing in which jurisdictions Essity is liable to tax and rules on how Essity's tax burden shall be distributed between jurisdictions include interpretations that differ from time to time and from jurisdiction to jurisdiction. International transfer pricing guidelines require related enterprises in the Essity Group to conduct all inter-company transactions on an arm's length basis but the guidelines will be subject to the interpretation by the individual jurisdictions. Tax authorities have historically, and may in the future challenge Essity's compliance with applicable rules. This has in the past resulted, and may in the future result, in disputes or litigation, the outcome of which may adversely impact Essity's tax position. Further, Essity has grown by means of a number of acquisitions. Acquisitions generally entail exposures of current and future tax positions relating to the targets of the acquisitions.

Any such additional tax exposure in relation to the above could have an adverse effect on Essity's business, financial condition and results of operations.

Essity is, and may in the future become, involved in governmental, litigation and other similar proceedings that could adversely affect Essity's business, financial condition and results of operations

Essity is, and may in the future become, involved in disputes related to the Company's business activities and risks being the subject of civil claims and disputes concerning, among other things, agreements, product liability or defective supply of goods or services. In addition, the Group companies (including the companies' officers, directors, employees or affiliates) may become subject to regulatory or criminal investigations and proceedings concerning, amongst other things, environmental, tax, competition or health and safety issues. Disputes or proceedings of this kind can be time consuming and protracted, disrupt normal operations, negatively affect customer relations and result in administrative and/or criminal sanctions and remedies as well as other considerable associated costs. Furthermore, should Essity be held liable pursuant to any such disputes or proceedings, there is a risk that any penalties assessed cannot be covered in full by Essity's insurance policy. Future disputes, claims, investigation and proceedings may have an adverse effect on Essity's business, financial condition and results of operations.

Essity's insurance policies may provide limited coverage, potentially leaving it uninsured against certain risks

There is a risk that Essity's insurance policies, in respect of inter alia property, equipment and business interruption as well as certain consequential losses, will not provide an adequate protection against all risks, and insurance against all types of risks may not be available.

The occurrence of an accident or other incidents that causes losses in excess of limits specified under the relevant policy or losses arising from events not covered by insurance policies could have an adverse effect on Essity's business, financial condition and results of operations.

Financial risks

The business of Essity may be adversely affected by liquidity and refinancing risk

Essity's ability to finance its on-going operations or refinance its outstanding debt depends on a number of factors, including the availability of cash flow from operations and access to additional sources of financing, and it is not certain that such funds will be available at commercially reasonable costs, if at all. Further, it is not certain that Essity will be able to incur additional debt and/or refinance its outstanding debt when it matures. Essity may face liquidity and refinancing risk in the event that it is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in rolling over its debt.

If Essity is unable to secure sufficient financing on favorable terms, due to either market conditions generally or factors specific to its business, Essity may not have sufficient cash to implement its business strategy, fund acquisitions or meet ongoing financing needs, which in turn could have an adverse effect on Essity's business, financial condition and results of operations.

Reduced credit rating for Essity's long-term debt could have a negative effect on financing costs and access to financing

Essity's borrowing costs and the access to financing depend significantly on the Company's credit ratings. These ratings are assigned by rating agencies, who may reduce or withdraw their ratings. A reduction in Essity's credit ratings could increase its borrowing costs and limit the access to the capital markets and other sources of financing. This, in turn, could reduce profits and have an adverse effect on Essity's business, financial condition and results of operations.

Exchange rate fluctuations could adversely affect Essity's financial condition and results of operations

Essity is exposed to exchange rate risk in several ways. Exchange rate movements in export revenues and import expenses could negatively impact Essity's operating profit and the cost of non-current assets. Further, Essity's result is affected by the translation of foreign subsidiaries' income statements to SEK. There is a risk that current or future hedging measures will fail to provide Essity with sufficient protection against the adverse effects of exchange rate fluctuations. In addition, the effectiveness of Essity's hedging activities is largely dependent on the accuracy of its assumptions and forecasts. Any incorrect assessments affecting such assumptions or forecasts may have an adverse effect on Essity's business, financial condition and results of operations.

Interest rate increases may have a negative impact on Essity

Essity is exposed to risk stemming from interest rate fluctuations, which could adversely affect its net financial income. Interest rates fluctuate based on a number of factors beyond Essity's control, including but not limited to, the macro-economic policies of governments and central banks in jurisdictions in which Essity conducts its operations. Any increase in rates could increase Essity's interest rate obligations (for example in relation to the Group's credit facilities and loans), which may have an adverse effect on Essity's business, financial condition and results of operations.

There is a risk that current or future hedging measures will fail to provide Essity with sufficient protection against the immediate adverse effects of interest rate movements. In addition, the effectiveness of Essity's hedging activities is largely dependent on the accuracy of its assumptions and forecasts. Any incorrect assessments affecting such assumptions or forecasts may have an adverse effect on Essity's business, financial condition and results of operations.

Essity is exposed to credit risks

Essity is exposed to credit risk, including the risk of losses due to failure by Essity's customers or counterparties in financial agreements to meet their payment obligations. There is a risk that Essity's reviews of its customers' payment capacity is proven to be insufficient or inaccurate. Credit risk exposure under Essity's financial agreements includes exposure against counterparties in derivative instruments, leasing transactions and other financial investments and arrangements. The failure by customers and counterparties under financial agreements to fulfil payment obligations towards Essity may have an adverse effect on Essity's business, financial condition and results of operations.

Essity may face impairment charges to the value of its goodwill and other intangible assets

Goodwill represents a significant part of Essity's balance sheet. Essity does not amortize its goodwill, but rather tests it annually for any impairment and recognizes such impairments on its balance sheet as soon as there are any indications that the asset in question has diminished in value. Essity routinely monitors relevant circumstances affecting Essity's operations and Essity's general financial condition, as well as the possible impact such circumstances may have on the valuation of Essity's goodwill and other intangible assets. It is possible that changes in such circumstances, or in any of the assumptions that Essity relies on in valuing its goodwill or other intangible assets, may require Essity to recognize impairment charges in the future. Goodwill impairment or amortization of other intangible assets and charges associated therewith, may have an adverse effect on Essity's business, financial condition and results of operations.

Essity's pension benefit obligations may exceed the reserve created for these obligations

Within Essity there are defined benefit pension plans with unfunded exposures. The valuation of the defined benefit pension plans is dependent on market conditions, actuarial methods and the assumptions used as well as known pension obligations as of the valuation date. A decrease in the value of pension assets or different actuarial assumptions could lead to increased pension obligations. A decline in interest rates or the market value of the securities covered by the plan, a longer life expectancy for participants in the pension plan, a change in the discount rate, a change in the investment strategy used by the pension plan trustee or certain other changes may adversely affect the pension plan and affect the level and the timing of the necessary provisions and premium payments, and thereby increase Essity's pension spending and reduce its profitability. Any shortfall in financing obligations for benefit pensions may exceed the reserve that have been created for these obligations and require additional funding.

Risks related to the distribution of Essity shares

The distribution of Essity may fail to realize anticipated benefits

The intended purpose of the distribution of Essity is to enhance the ability of each business to successfully implement its strategies and unlock value for the shareholders of Essity and SCA. However, there is a risk that the anticipated benefits of the distribution will not be achieved if the assumptions underlying the decision to carry out the distribution turn out to be incorrect. For example, Essity, as a standalone company, may not be able to procure external financing or other financial services on conditions as favorable as obtainable by the SCA Group, as constituted before the distribution. Moreover, to the extent that Essity as a standalone company incurs additional costs, achieves lower profits or has lower-than-expected cost savings, its business, financial condition and results of operations could be adversely affected and the anticipated benefits from the distribution could fail to be realized.

Indemnifications provided in connection with the split from the SCA Group may result in unforeseen costs for Essity
Under the asset transfer agreement entered into between Essity and SCA, Essity and SCA have agreed that SCA, as a main rule, will indemnify Essity for claims and obligations clearly attributable to SCA's forest operations and, correspondingly, Essity will indemnify SCA for claims and obligations clearly attributable to Essity's operations. Liabilities that cannot be allocated by applying the main rule, shall be allocated by applying the allocation principle, which entails that the liability shall be allocated by 85% to Essity and by 15% to SCA. The allocation principle is based on the SCA Group's and the Essity Group's respective representation of total net sales for the SCA Group as constituted before the distribution, at year end 2016. Should there occur unforeseen significant liabilities pertaining to the Essity business that would trigger Essity's indemnification liability, this could lead to increased costs for the Company. Further, if Essity and SCA fail to agree on the application of the main rule or the allocation principle in any matter, the matter may finally need to be resolved in arbitration procedures, which may both be protracted and costly for Essity.

Following the distribution, Essity will be a more streamlined organization with a different asset pool, which may have an adverse effect on the Group's ability to handle unforeseen costs
The asset pool of Essity as a standalone company will be smaller than the combined asset pool in the current SCA Group. Accordingly, every risk that currently exists in the SCA Group and that will continue to exist in Essity after the distribution may be of greater proportional significance to such business than for the SCA Group as constituted before the distribution. This may concern, for example, the capability to manage unforeseen claims and expenses of material significance. Any major unforeseen claims and costs could, therefore, have an adverse effect on Essity's business, financial condition and results of operations.

Risks related to the shares

Investments in shares and ADSs are subject to risk and investors may lose their investment
Risk and risk-taking are unavoidable aspects of share ownership. Since an investment in shares and ADSs can increase or decrease in value, there is a risk that an investor will not regain the capital invested. There is a risk that the market will not react favorably to the distribution of the Essity shares, and investors may perceive the standalone companies less favorably than the SCA Group, as constituted before the distribution. The price trends of Essity's shares and ADSs will further depend on a number of factors, some of which are Essity specific and others linked to the stock market as a whole or otherwise outside the Company's control (such as holders' sale of substantial holdings). These factors could also increase share price volatility. Consequently, every decision to invest in shares and ADSs should be preceded by a thorough analysis.

There is a risk that an active, liquid and functioning markets for trading in Essity's shares or ADSs does not emerge
Prior to the listing on Nasdaq Stockholm, no public market exists for Essity's shares and prior to Essity's establishment of a "Level I" ADR Program, there was no market for its ADSs. Accordingly, there is a risk that an active market for trading in the shares or the ADSs will not develop following the listing of the shares on Nasdaq Stockholm and the creation of the ADR Program for Essity shares, respectively.

Furthermore, there is a risk that the liquidity of Essity's shares of Class A will be more limited than the liquidity of Essity's shares of Class B (among other things due to lower number of Class A shareholders and Class A shares in issue). Low liquidity of Essity's shares of Class A could entail difficulties in selling shares of Class A at a point in time that is considered desirable for the shareholder or at a price level that could be obtained if a favorable liquidity situation prevailed.

Under Essity's ADR Program investors will trade ADSs in the United States in the over-the-counter ("**OTC**") market. The OTC market is a significantly more limited and less regulated market than the national exchanges, and as a result, trading volume in the ADSs may be limited and investors may not have sufficient liquidity, which may make it more difficult for holders of the ADSs to sell their securities. It is not certain that the ADSs will continue to be traded on the OTC market or any other trading market.

Holders of shares or ADSs in the United States or other countries outside Sweden may not be able to participate in any potential future rights issues
If Essity issues additional new shares with preferential rights for existing shareholders, shareholders in certain other countries may be subject to limitations that prevent them from participating in such rights offerings, or that otherwise makes participation difficult or limited. For example, shareholders and Essity ADS Holders (as defined below) in the United States may not be able to exercise any rights to subscribe for new shares unless a registration statement under the Securities Act is effective in respect to such shares or an exemption from the registration requirements under the Securities Act is available. Essity does not currently expect to prepare such a registration statement in the event it were to offer new shares. Other shareholders in jurisdictions outside Sweden may be similarly affected. Essity is under no obligation to file a registration statement under the Securities Act or to seek similar approvals or relevant exemptions under the laws of any other jurisdiction outside Sweden, and attempting to do so in the future may be impractical and costly. To the extent that Essity's shareholders in jurisdictions outside Sweden are not able to subscribe for new shares in any future rights issues, their proportional interests in Essity will be reduced.

Essity's potential to pay dividends to its shareholders depends on the Group's future earnings, financial condition, cash flow, working capital requirements and other factors
Shareholders of Essity are entitled to receive dividends (assuming dividends are resolved by the Annual General Meeting) as of the date on which the shareholders are included in the share register maintained by Euroclear Sweden. Future dividends, and the extent of any such dividends, depend on Essity's future earnings, financial condition, cash flow, working capital requirements and other factors. There are also many risks that could adversely impact Essity's operations (see above in this section), which could entail that Essity's earnings do not permit dividends in the future.

Shareholders holding substantial number of votes in Essity may exercise significant influence over Essity
A shareholder with a substantial holding of voting rights (such as a high portion of Class A shares) may be in a position to exercise significant influence over Essity and the outcome of matters referred to Essity's shareholders for resolution, and it might be that the interests of such shareholder(s) diverge from or compete with those of Essity or other shareholders.

Any future capital increases by Essity could have a negative impact on the price of the shares and non-participation will result in a dilution of ownership
Essity may in the future increase its share capital in directed issues of instruments against cash or contributions in kind for various reasons, including to finance any future acquisition or other investment or to strengthen its balance sheet. Such share capital increases will result in a diluted ownership for shareholders who, for whatever reason are not

invited or cannot participate in such an issue. A share capital increase without preferential rights for existing shareholders to participate may only be made in accordance with applicable Swedish law and good practices in the Swedish stock market, which among other things require objective and legitimate reasons for the deviation from the preferential rights. Such share capital increases dilute the stakes in Essity's share capital held by existing shareholders at that time and could have an adverse effect on the share price, earnings per share and net asset value per share.

Differences in currency exchange rates may have an adverse effect on the value of ADSs or shareholdings or dividends
The shares will be traded in SEK, and any dividends will be paid in SEK. As a result, shareholders outside Sweden or Essity ADS Holders may experience adverse effects on the value of their shareholding and their future dividends due to their exposure to SEK, if SEK depreciates against the relevant currency.

Holders of Essity ADSs may not be able to exercise voting rights as readily as an ordinary shareholder, or at all
In the past, the SCA Group has not offered the possibility for SCA ADS Holders to vote and has not instructed the depositary to distribute voting materials to the SCA ADS Holders, and Essity does not expect to enable voting by its own Essity ADS Holders in the future. While Essity ADS Holders may surrender those ADSs to the depositary and withdraw the underlying Essity shares, becoming direct shareholders of Essity, so long as they continue to hold those shares in ADS forms, their voting rights may be significantly limited.

The rights of Essity shareholders and holders of Essity ADSs may differ from the rights typically offered to shareholders of a United States corporation
Essity is incorporated under Swedish law. The rights of holders of Essity shares are governed by Swedish law, including the provisions of the Swedish Companies Act (*aktiebolagslagen (2005:551)*) and by Essity's Articles of Association. The rights of holders of Essity shares and ADSs may in certain respects differ from the rights of shareholders in United States corporations.

Exchange rate information and regulation

The following table provides information with respect to the exchange rate for SEK per USD 1.00 based on the noon buying rate for cable transfers in SEK as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate as of May 26, 2017, the most recent exchange rate available, was SEK 8.69 per USD 1.00. The information is presented for convenience, particularly with regard to holders of Essity's American Depositary Receipts.

Period	High	Low	Average[1]	Period End
2012	7.27	6.50	6.77	6.51
2013	6.82	6.29	6.51	6.43
2014	7.82	6.34	6.86	7.82
2015	8.82	7.88	8.44	8.45
2016	9.42	7.98	8.55	9.08
2017				
January	9.16	8.75	8.95	8.75
February	9.01	8.72	8.90	9.01
March	9.07	8.77	8.91	8.93
April	9.06	8.77	8.96	8.86
May (through May 26)	8.91	8.67	8.79	8.69

[1] Average of daily rates.

Background and reasons

SCA's shareholders decided at the Annual General Meeting on April 5, 2017 in accordance with the proposal by the Board of Directors to distribute all shares in its wholly-owned subsidiary Essity to the shareholders of SCA. Essity intends to list its shares on Nasdaq Stockholm, with the first day of trading on June 15, 2017.

Essity's heritage goes back to 1929 when the company SCA was founded in Sweden. Essity has over the years come to represent an increasing share of the SCA Group's operations with Essity's net sales representing approximately 86% of SCA Group's total net sales in 2016. Essity has grown to encompass the Business Areas Personal Care, Consumer Tissue and Professional Hygiene. Essity is present in the attractive and growing hygiene and health market with strong global and regional brands, and has a strong presence in emerging markets. The Company has a track record of profitable growth and strong cash flow, driven by continuous work to grow profitable market positions, improve or exit underperforming positions as well as successful innovation programs and efficiency enhancements. In addition, the recent acquisition of BSN medical provides a new growth platform. BSN medical's similarities with Essity's incontinence business also provides opportunities for accelerated growth through cross-selling.

Essity is a leading global hygiene and health company and the split from the SCA Group with an independent listing of Essity is thus a natural step in the development of the hygiene business. A split from the SCA Group and a distribution and listing of the shares in Essity is expected to increase focus, customer value and development opportunities and to enable Essity to successfully realize its strategies under the leadership of a separate and dedicated management team, with a separate Board of Directors and independent access to capital.

The distribution of Essity is expected to increase shareholder value over the long term. A listing also provides an opportunity for current and new shareholders to invest directly in Essity.

The Board of Directors is responsible for the contents of this prospectus. The Board of Directors hereby declares that, having taken all reasonable care to ensure that such is the case, information in this prospectus is, to the best of the Board of Directors' knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Stockholm on June 4, 2017

Essity Aktiebolag (publ)
The Board of Directors

Information regarding the distribution of Essity

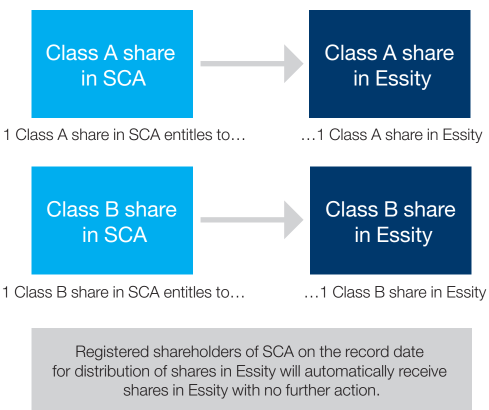
Resolution on distribution of Essity

On April 5, 2017, the Annual General Meeting of SCA resolved, in accordance with the Board of Directors' proposal, to distribute all shares in the wholly-owned subsidiary Essity to the shareholders of SCA. The shares in Essity are distributed to the shareholders of SCA in proportion to each shareholder's holdings of shares in SCA on the record date for distribution (June 13, 2017), as determined by the Board of Directors of SCA. Each share held in SCA entitles to one share of the same share class in Essity. Aside from being registered as a shareholder on the record date for distribution (directly registered or nominee-registered), no further actions are required in order to receive shares in Essity. The distribution of shares is expected to take place in accordance with the Swedish "Lex ASEA" rules regarding taxation. For further information, see the section entitled "*Certain tax issues*".

Distribution ratio

Each share of Class A in SCA entitles to one share of Class A in Essity and each share of Class B in SCA entitles to one share of Class B in Essity. In total, 702,342,489 shares in Essity will be distributed, of which 64,593,939 are Class A shares and 637,748,550 are Class B shares. Each Essity share of Class A entitles to ten votes and each Essity share of Class B entitles to one vote at the General Meeting. For further information, see the section entitled "*Share capital and ownership structure*".

Example – Distribution of shares



Record date

The Euroclear Sweden record date for the right to receive distribution of shares in Essity is June 13, 2017. The last day of trading in SCA's shares including the right to distribution of shares in Essity is June 9, 2017. The shares in SCA will be traded excluding the right to distribution of shares in Essity as of June 12, 2017.

Receipt of shares in Essity

Those recorded in SCA's register of shareholders maintained by Euroclear Sweden, on the record date for the distribution of shares in Essity, will receive shares in Essity with no further action. Shares in Essity will be available on the securities account of those shareholders who are entitled to receive the distribution (or the securities account belonging to the party who is otherwise entitled to receive the distribution) no later than two banking days after the record date. Thereafter, Euroclear Sweden will send out a statement containing information on the number of shares registered on the securities account of the recipient.

Nominee-registered holdings

Shareholders whose shares in SCA are registered in the name of a nominee (i.e., a bank or other nominee), on the record date for the distribution of shares in Essity, will not receive a statement from Euroclear Sweden. Notification and the crediting of shares in Essity to the accounts of nominee-registered shareholders will instead be carried out in accordance with the procedures of the respective nominee.

Listing of the shares in Essity

The Board of Directors of Essity has applied for a listing of the Company's shares of Class A and Class B, respectively, on Nasdaq Stockholm. Nasdaq Stockholm's listing committee decided on May 30, 2017 to approve Essity's application of admission of the Company's shares to trading on Nasdaq Stockholm provided that certain customary conditions are fulfilled. The first day of trading is expected to be June 15, 2017. The Company's ticker symbol on Nasdaq Stockholm will be ESSITY A for the share of Class A and ESSITY B for the share of Class B. The ISIN code for Essity's share of Class A is SE0009922156 and the ISIN code for Essity's share of Class B is SE0009922164.

American depositary shares

As of April 28, 2017 there were 2,408,742 American Depositary Shares ("**SCA ADS**") outstanding. Each SCA ADS issued under the amended and restated deposit agreement (the "**SCA Deposit Agreement**") dated as of April 29, 2010 among SCA, Deutsche Bank Trust Company Americas, as depositary (the "**SCA Depositary**"), and the registered holders of SCA ADSs (the "**SCA ADS Holders**"), represents one B share of SCA (each a "**Deposited Share**").

Essity will establish an American Depositary Receipt ("**Essity ADR**") program (the "**ADR Program**") pursuant to a deposit agreement, which is to be entered into among Essity, Deutsche Bank Trust Company Americas, as depositary (the "**Essity Depositary**"), and the registered holders of Essity ADSs (the "**Essity ADS Holders**"), setting out the terms of the Essity ADR Program (the "**Essity Deposit Agreement**"). At the distribution of Essity, SCA will deliver through its custodian the B shares in Essity deliverable at the distribution of Essity with respect to the Deposited Shares held by the SCA Depositary's custodian under the Essity Deposit Agreement and, subject to compliance with the provisions of the Essity Deposit Agreement and SCA Deposit Agreement, the Essity Depositary will issue Essity ADSs to the holders of SCA ADSs entitled thereto.

To the extent Essity ADSs are able to be distributed under the terms of the SCA Deposit Agreement, it is anticipated that each holder of SCA ADSs will be entitled to receive one Essity ADS for each SCA ADS held as of the record date established by the SCA Depositary for the distribution of Essity (the "**Essity ADS Record Date**") with each Essity ADS representing one B Share of Essity.

The last day SCA ADSs will represent SCA's shares including the right to the distribution of Essity ADSs is expected to be June 9, 2017. The first day SCA ADSs will represent SCA's shares excluding the right to the distribution of Essity ADSs is expected to be June 12, 2017. The Essity ADS Record Date for the right to receive Essity ADSs is expected to be June 13, 2017. The date of delivery of Essity ADSs to SCA ADS Holders on the Essity ADS Record Date is expected to be June 15, 2017.

Persons holding SCA ADSs through a bank, broker or other nominee should contact such entity regarding the receipt of the Essity ADSs to which they may be entitled. Holders of SCA ADSs (other than the nominee of The Depository Trust Company) will receive the Essity ADSs in book-entry form and holding statements will be mailed to such holders as soon as practicable after the distribution of Essity.

Essity will be required to pay all fees for general depositary services provided by the Essity Depositary in the Essity Deposit Agreement. In addition, in connection with receiving Essity ADSs, SCA ADS Holders will be charged, have deducted or be required to pay any applicable fees, charges and expenses of the SCA Depositary or the Essity Depositary and any applicable taxes or other governmental charges. The fees, charges and expenses applicable with respect to the Essity ADSs will be disclosed in the Essity Deposit Agreement. For additional information, see "*American depositary shares*" in the section entitled "*Share capital and ownership structure*".

The Essity ADSs will not be listed on any United States securities exchange. It is anticipated, however, that such Essity ADSs will be eligible for trading on the United States OTC market.

Rights to dividends

The shares in Essity entitle to dividend for the first time on the record date for distribution of dividend which falls immediately after the distribution of shares in Essity has been executed. Any dividends will be paid following a resolution by a General Meeting. The payment of any dividends will be administered by Euroclear Sweden or, should the shares be nominee-registered, in accordance with the procedures of the respective nominee. Entitlement to receive such dividends is limited to shareholders registered in the share register maintained by Euroclear Sweden on the record date for distribution determined by the General Meeting. For further information, see "*Financial targets and dividend policy*" in the section entitled "*Market and business description*" and "*Rights to dividends and surplus in the event of liquidation*" in the section entitled "*Share capital and ownership structure*". For information on tax on dividend, see the section entitled "*Certain tax issues*".

Transaction costs

Essity's share of the total costs for the conceived split of the SCA Group is estimated to be approximately SEK 820m, including project and listing costs of approximately SEK 90m, one-time foreign tax on non-current assets outside Sweden of approximately SEK 450m, and brand-related costs of approximately SEK 280m. The transaction costs have affected and will affect Essity's financial results for both 2016 and 2017. Of the total costs, approximately SEK 80m are expected to affect financial items and approximately SEK 740m are expected to affect items affecting comparability. Of the total costs, SEK 74m affected the fourth quarter of 2016, of which SEK 68m affected financial items and SEK 6m affected items affecting comparability.

Market and business description

This prospectus contains statistics, data and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to the Company's business and markets. At certain points in this prospectus Essity's market position is described. Unless otherwise indicated, such information is based on the Company's analysis of information and market data from multiple external market sources[1] and information otherwise obtained and has been compiled based on sales. Information derived from external sources has been accurately reproduced, and, as far as the Company is aware and able to ascertain from such information, no facts have been omitted which would render the information provided inaccurate or misleading.

Introduction

Essity is a leading global hygiene and health company that develops, produces and sells products and solutions within the Business Areas Personal Care, Consumer Tissue and Professional Hygiene. Sales are conducted in about 150 countries under many strong brands, including the leading global brands TENA and Tork, and other brands, such as Leukoplast, Libero, Libresse, Lotus, Nosotras, Saba, Tempo, Vinda and Zewa. For 2016 the Company reported net sales of SEK 101bn. Europe is Essity's largest market and the Company also holds strong positions in North America, Latin America and Asia. Essity has its headquarters in Stockholm, Sweden and had 42,520 employees as of December 31, 2016.

Essity divides and reports its operations in three segments corresponding to the three Business Areas – Personal Care, Consumer Tissue and Professional Hygiene. The Business Area Personal Care includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. The Consumer Tissue Business Area provides products including toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. The Professional Hygiene Business Area develops and sells complete hygiene solutions, including toilet paper, paper towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, sensor technology and service and maintenance to institutions and companies, amongst others. On April 3, 2017, Essity completed the acquisition of BSN medical, a leading global medical solutions company.[2] BSN medical develops, manufactures and sells products within wound care, compression therapy and orthopedics. As of April 3, 2017, BSN medical will be included in the Business Area Personal Care and consolidated in the Group's financial statements. BSN medical is consequently not included in the Company's historical financial information presented in this prospectus. For further information regarding the Business Areas, see "*Business Areas*" below.

Market trends and drivers

The consumption of hygiene and health products and solutions is supported by favorable demographic trends. The Company believes the following factors to be the key market trends and drivers for the hygiene and health market's development:

- Population growth;
- Aging population;
- Increased urbanization;
- Increased disposable income and higher standard of living;
- Increased awareness about health and hygiene;
- Increased prevalence of chronic conditions;
- Access to healthcare; and
- Changes in customer and consumer behavior.

Shifts in global demographics such as population growth – primarily due to a lower infant mortality rate and increased longevity – and higher disposable income point to continued favorable growth for the personal care and tissue markets. The effect of higher disposable income is that more people prioritize hygiene and health when food and housing needs have been, or are in the process of being, satisfied. Consequently, demand for Essity's products is rising in emerging markets. Growth is also occurring in mature markets owing to lifestyle changes and innovations that lead to increased use of hygiene and health products.

Below is a short description of the above stated market factors that Essity believes have affected the Company's business in the past, and are expected to continue to do so in the future.

1) Including IRI, Price Hanna Consultants, RISI, National Macro Economics, Nielsen, SmartTRAK, INSIGHT Health and others.
2) The information has been compiled by Essity for presentation purposes based on statistics derived from external market sources including SmartTRAK and INSIGHT Health.

Population growth

Change in population size is an important factor for the development of the hygiene and health market. A growing population leads, among other things, to an increased demand for hygiene and health products. The Company estimates this trend to be an important driver for all of Essity's operating Business Areas.

The world's population continues to increase according to the UN. Global population reached 7.3 billion in 2015, increasing by approximately one billion people over the last twelve years. Going forward, global population is expected to increase by over one billion people within the next 15 years and will reach 8.5 billion by year 2030 and further increase to 9.7 billion by 2050. Africa is expected to be the largest contributor to global population growth between 2015 and 2050, followed by Asia. The table below illustrates population size and expected population growth in different geographical regions between 2015 and 2050.[1)]

Million people	2015	2020e	2030e	2050e	CAGR*) '15–'20e	CAGR*) '15–'50e
World	7,349	7,758	8,501	9,725	1.1%	0.8%
Asia	4,393	4,598	4,923	5,267	0.9%	0.5%
Africa	1,186	1,340	1,679	2,478	2.5%	2.1%
Europe	738	740	734	707	0.0%	–0.1%
Latin America & Caribbean	634	667	721	784	1.0%	0.6%
North America	358	371	396	433	0.7%	0.5%
Australia	39	42	47	57	1.4%	1.0%

Source: UN World Population Prospects: The 2015 Revision.
*) CAGR refers to Compound Annual Growth Rate.

Aging population

An aging population will likely put more pressure on the elderly care system and an increasing number of elderly people will likely require homecare. In addition, people are healthier and continue to lead active lives at an older age. An older population may increase the demand for incontinence and healthcare products both in mature and emerging markets. The Company estimates this trend to be a significant driver primarily for the Personal Care Business Area.

Life expectancy is rising and the world's elderly population is expected to grow the fastest going forward. In 2015, people aged 60 or over represented 901 million people, corresponding to 12% of the world population. This demographic group is expected to grow at approximately 3% CAGR between 2015 and 2020. In 2015, Europe had the largest share of people aged 60 or over with 24% of the population pertaining to that demographic group, a share that is expected to grow to 34% by 2050. The population is also aging rapidly in other parts of the world and by 2050, people aged 60 or over will represent close to a quarter of the population in all major regions, except Africa. In Latin America and the Caribbean, the percentage of the population aged 60 or over is expected to increase from 11% in 2015 to 26% in 2050. In Asia, it is expected to grow from 12% to 25% and in North America from 21% to 28% during the same period.[2)]

On a global level, the population aged 60 or over is expected to more than double, from 901 million in 2015 to 2.1 billion in 2050. The table below illustrates the development of the size of the demographic group of people aged 60 or over and its expected growth in different geographical regions between 2015 and 2050.[3)]

Millions of people aged 60 or over	2015	2020e	2030e	2050e	CAGR '15–'20e	CAGR '15–'50e	Share '15	Share '50e
World	901	1,046	1,402	2,092	3.0%	2.4%	12.3%	21.5%
Asia	508	599	844	1,294	3.4%	2.7%	11.6%	24.6%
Africa	64	76	105	220	3.3%	3.6%	5.4%	8.9%
Europe	177	191	217	242	1.6%	0.9%	23.9%	34.2%
Latin America & Caribbean	71	85	121	200	3.8%	3.0%	11.2%	25.5%
North America	75	87	105	123	3.0%	1.4%	20.8%	28.3%
Australia	6	7	10	13	2.9%	2.1%	16.5%	23.3%

Source: UN World Population Prospects: The 2015 Revision.

Urbanization

Urbanization refers to the population shift from rural to urban areas and a measure of urbanization is the share of an area's population living in cities. Increased urbanization drives the retail trade and an increased demand for consumer products such as personal care and consumer tissue. Urbanization and increased traveling are important growth factors in the professional hygiene market, as consumers spend more time in public places, such as airports, offices and restaurants.

Globally, more people today live in urban areas than in rural areas, and in 2015 the urban population represented 54% of the total global population. The trend towards urbanization is expected to continue and the proportion of the population living in cities is expected to increase to 66% by 2050. Urbanization is expected to increase in all major regions in the coming decades, with emerging markets exhibiting the fastest rates of urbanization compared to developed markets. Africa and Asia are urbanizing faster than the other regions and are projected to become 56% and 64% urban, respectively, by 2050. The table below illustrates the development of the share of the population living in cities in different regions.[4)]

Urbanization	2015	2020e	2030e	2050e	CAGR '15–'30e	CAGR '15–'50e
World	54%	56%	60%	66%	0.7%	0.6%
Asia	48%	51%	56%	64%	1.0%	0.8%
Africa	40%	43%	47%	56%	1.0%	0.9%
Europe	74%	75%	77%	82%	0.3%	0.3%
Latin America & Caribbean	80%	81%	83%	86%	0.3%	0.2%
North America	82%	83%	84%	87%	0.2%	0.2%
Oceania	71%	71%	71%	74%	0.1%	0.1%

Source: UN World Urbanization Prospects, the 2014 revision.

1) Source: UN World Population Prospects: The 2015 Revision.
2) Source: UN World Population Prospects: The 2015 Revision.
3) Source: UN World Population Prospects: The 2015 Revision.
4) Source: UN World Urbanization Prospects: The 2014 Revision. Note that the definition of urban population may vary across countries and the report has not attempted to impose consistency across countries.

Increased disposable income and higher standard of living

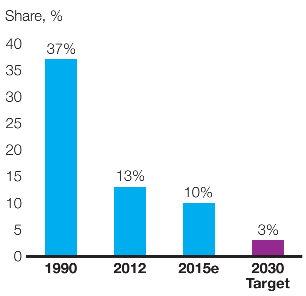
Disposable income is a measure of how much a household can spend post-tax. The development of household disposable income affects consumption habits and expenditure for consumers. The table below shows household final consumption expenditure over the historical period 2006–2015 in selected countries.

Household final consumption expenditure	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR ’06–’15
China	100	113	123	137	151	169	183	197	213	230	9.7%
Brazil	100	106	113	118	126	132	136	141	143	137	3.6%
Mexico	100	103	105	98	104	109	114	117	119	122	2.3%
Sweden	100	104	104	104	108	110	111	113	116	119	1.9%
United States	100	102	102	100	102	104	106	108	111	114	1.5%
France	100	102	103	103	105	106	105	106	107	108	0.9%
United Kingdom	100	103	102	99	99	99	101	102	104	107	0.8%
Germany	100	100	101	101	101	102	104	105	106	108	0.8%

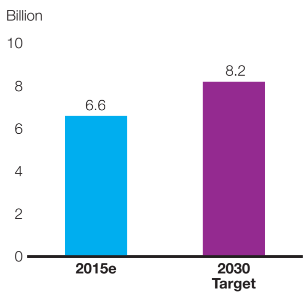
Source: The World Bank. Household final consumption expenditure (constant currency) (indexed 2006=100).

The trend of increasing disposable income has been compounded by global population growth, as well as a decreasing level of global poverty. The share of the population living with less than USD 1.9 per day has been reduced from almost 37% in 1990 to 10% in 2015, as illustrated below. An increasing number of people earn more than USD 4 per day and have moved into the working middle class.[1] Once people's most basic needs for food and shelter are met, health and hygiene become top priorities. The Company expects increased disposable income and higher living standards to continue to drive demand for hygiene and healthcare products.

Share of population living in poverty *(less than $1.9 per day)*



Global population not living in poverty *(more than $1.9 per day)*



Source: World Bank – Ending Extreme Poverty and Sharing Prosperity: Progress and Policies. UN World Population Prospects: The 2015 Revision.

Increased awareness about health and hygiene

Limited or no access to hygiene and sanitation is one of the greatest global challenges to solve. There is a growing awareness of the relationship between hygiene and health, as is also indicated by the UN's development goals. Good hygiene and knowledge about hygiene and hygiene products improve people's well-being while also driving demand for hygiene products. Incontinence products, for example, enable elderly people to lead more active and dignified lives. There are, however, still taboos regarding, for example, menstruation and incontinence both in emerging and mature markets. The Company expects penetration and usage of incontinence products in both developed and emerging markets to increase as general awareness improves, and these taboos are dismantled.

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.

Increased prevalence of chronic conditions

Examples of chronic diseases are cancer, diabetes, incontinence, wounds, obesity, edema and related venous insufficiency. Chronic diseases such as type 2 diabetes and obesity are often related to lifestyle and usually emerge in middle age after long exposure to an unhealthy lifestyle, for example alcohol and tobacco use, a lack of regular physical activity and unhealthy diets, in mature markets and more recently in developing countries. The combination of these and other risk factors is believed to have an additive or even a multiplier effect, capable of accelerating the pace at which the chronic disease epidemic is emerging in the developing countries.[2]

The increased prevalence of chronic diseases such as diabetes, cancer and obesity is driving greater demand for wound care, compression therapy and orthopedic products. Diabetes and obesity can damage blood vessels and nerves, leading to impaired blood flow, reduced sensations and slower or no wound healing. As such, small injuries of the foot or leg for example can go unnoticed and develop into poorly healing ulcers that can lead to further serious

1) Source: UN – The Millennium Development Goals Report 2015.
2) Source: WHO – World Health Organization.

medical complications. Globally there are around 50 million[1] reported cases of patients suffering from difficult to heal wounds, including foot ulcers and venous leg ulcers, which affect over 600,000 people per annum[2] in the United States alone. Lymphedema[3] can be caused or exacerbated by cancer and cancer treatment, leading to swelling, discomfort and pain, as well as skin infections and wounds. Treatment options for patients suffering from lymphedema include compression therapy and vascular products. Bandages, wraps and pumps are used for decongestion, and then compression garments are used to prevent limb expansion. Obesity can also lead to joint injuries for patients. These injuries can be treated with orthopedic products which are used to support and stabilize joints, and allow for healing and prevention.

People are also living longer with chronic diseases due to their early detection and more effective treatment. For example, studies have shown that the life expectancy of people with type 1 diabetes has increased over the years.[4] Life expectancy of people with type 1 diabetes has risen from 53 years for people born between 1950 and 1964 to 69 years for people born between 1965 and 1980.[5] People with type 1 diabetes will also, in the majority of cases, develop diabetes at a younger age than those with type 2 diabetes, and therefore will usually spend a longer period of their life living with the condition. Increased prevalence and increased life expectancy of people with chronic conditions are expected to drive demand for healthcare products.

The burden of chronic diseases is rapidly increasing worldwide. Chronic diseases are estimated to account for approximately 70% of the total reported deaths in the world and deaths from chronic diseases are projected to increase from 38 million in 2012 to 52 million by 2030.[6] Obesity and diabetes are also showing increased prevalence affecting a large proportion of the population and starting to appear earlier in life.

The chronic disease problem is not limited to the developed regions of the world. Developing countries are increasingly suffering from high levels of public health problems related to chronic diseases. Approximately 75% of all deaths worldwide that are attributable to chronic diseases are occurring in low- and middle-income countries.[7] The prevalence of diabetes has also been steadily increasing for the past three decades and is growing most rapidly in low- and middle-income countries.[8]

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.[9] The occurrence of incontinence among people over the age of 65 is expected to be between 15 and 20%.[10] Based on this, many indicators point to the proportion of people affected by incontinence to increase on a global scale, as a direct result of an aging population.

Access to healthcare

Healthcare innovation and healthcare demand are rapidly increasing in emerging markets. Outside of the OECD area, health spending has increased rapidly in countries, such as China, as progress towards universal health coverage takes hold.[11] Global healthcare spend is expected to increase from USD 1,024 per capita in 2015 to USD 1,178 per capita in 2020.[12] Spending on healthcare in countries, such as China, is expected to continue to rise in line with their economic growth, and are predicted to become major markets for healthcare companies.[13] A 2014 report by the World Economic Forum estimates that one third of all global health expenditure will occur in emerging economies by 2022.[14] As an example of the increased access to healthcare in emerging markets, the number of physicians per 1,000 inhabitants in Latin America and the Caribbean increased by 61% between 1990 and 2011 compared to an increase of 22% worldwide.[15] Increased access to healthcare in emerging markets drives demand for healthcare products.

Changes in customer and consumer behavior

Trends, technological developments and values cause customer and consumer behavior to change more rapidly. Accordingly, the ability to anticipate and exceed customer and consumer expectations is becoming increasingly important.

- Increased awareness about health and hygiene.
- Limited resources, political priorities and knowledgeable, conscious customers and consumers are increasing the demand for sustainable products and services.
- Many purchases are now made online, which impacts product development, marketing and distribution strategies. Customers and consumers are increasingly demanding digital solutions.
- Highly innovative products, services and business models are required in order for companies to respond to these changing behaviors.
- Consumerization trend is transforming parts of the market. Customers role in decision making and sales points in the healthcare sector are moving closer to the end customer.
- Longer life expectancy combined with lifestyle choices and willingness to spend is driving demand for incontinence products and medical solutions in mature markets.

1) Source: Global Wound Care Market Outlook – Analysis of Wound Care Tecnologies, October 2014, Frost and Sullivan, Frost and Sullivan Inc.
2) Source: The Global advanced wound care market to 2017, August 2012, Espicom Business Intelligence (BMI Research – Business Monitor International Ltd).
3) Lymphedema involves blockage of the lymph vessels, with a resulting accumulation of lymphatic fluid in the interstitial tissues of the body.
4) Source: Improvements in the Life Expectancy of Type 1 Diabetes. Rachel G. Miller, Aaron M. Secrest, Ravi K. Sharma, Thomas J. Songer, Trevor J. Orchard. Diabetes Nov 2012, 61 (11) 2987-2992; DOI: 10.2337/db11-1625.
5) Source: The Pittsburgh Epidemiology of Diabetes Complications Study Cohort (2012).
6) Source: Noncommunicable diseases – Fact sheet, World Health Organization, updated April 2017, and Global Status report on noncommunicable diseases, 2014, World Health Organization.
7) Source: Global status report on noncommunicable diseases, 2014, World Health Organization.
8) Source: Global report on diabetes, World Health Organization, 2016.
9) Source: Global Forum on Incontinence.
10) Source: SCA Annual Report 2016 – Source: EPIC study.
11) Source: FOCUS on Health Spending @ OECD Health Statistics 2015.
12) Source: 2017 Business Monitor International Ltd.
13) Source: Harvard Business Review (hbr.org), http://bit.ly/1vKUNdY.
14) Source: World Economic Forum: Health Systems Leapfrogging in Emerging Economies – Project Paper, P. 5, http://bit.ly/1qMVwag.
15) Source: World Health Organization's Global Health Workforce Statistics, OECD, supplemented by country data.

The hygiene and health market

The markets for personal care and tissue are described below. The market for personal care comprises the market for the Company's Business Area Personal Care and the market for tissue comprises the market for the Company's Business Areas Consumer Tissue and Professional Hygiene.

In 2016,[1)] the global hygiene and health market amounted to approximately EUR 112bn of which the global market for personal care amounted to approximately EUR 56.5bn and the global market for tissue amounted to approximately EUR 55.5bn. The global market for personal care is divided into baby diapers (approximately EUR 23.0bn), feminine care (approximately EUR 12.8bn), incontinence products (approximately EUR 9.1bn) and medical solutions (approximately EUR 11.6bn). The global market for tissue is divided into consumer tissue (approximately EUR 41.6bn) and professional hygiene (approximately EUR 13.8bn). The geographical distribution of the global hygiene and health market (including medical solutions) for 2016 is presented in the graph to the right.

1) Source: Market values referring to consumer tissue, professional hygiene, baby diapers, feminine care and incontinence products are based on 2016 data and market value referring to medical solutions are based on 2015 data.

Global hygiene and health market size per geographical region

Market for personal care

Growth in consumption of personal care products is supported by favorable demographic trends in emerging and mature markets. The growth potential for personal care products 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. As shown below, one example of the lower market penetration in emerging markets is that the consumption rates for baby diapers and incontinence products per capita per year in Asia are only about one-fifth and one-sixth, respectively, of those in Western Europe. In mature markets, baby diapers and feminine care products have attained high market penetration. However, market penetration for incontinence products in mature markets is still low for certain product segments, particularly among men, which the Company believes may be due to lack of awareness and taboo associated with incontinence.

The geographical distribution of the personal care market 2016, excluding medical solutions, is presented to the right.

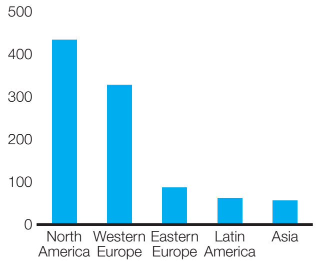
Essity's competitors within personal care include Kimberly-Clark, Procter & Gamble, Unicharm and 3M.

Personal care excluding medical solutions – global market

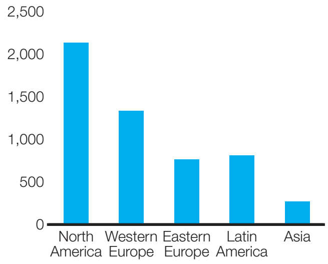
- Western Europe, 15%
- Eastern Europe, 6%
- North America, 22%
- Latin America, 11%
- Asia, 40%
- Other, 6%

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

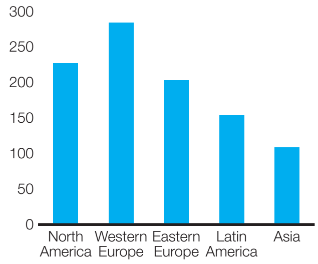
Use of incontinence products



Use of baby diapers



Use of feminine care products



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

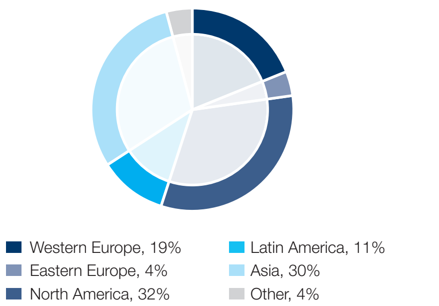
Market for tissue

The growth potential for tissue products is considered the 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. As shown below, 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.

The geographical distribution of the total tissue market 2016, including consumer tissue and professional hygiene, is presented below.

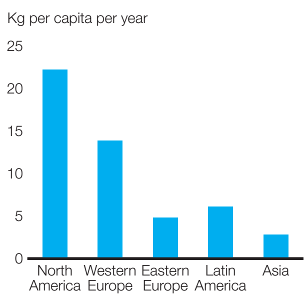
Essity's competitors within tissue include Georgia-Pacific, Hengan, Kimberly-Clark and Sofidel.

Tissue – global market



Source: The information has been compiled by Essity for presentation purposes based on statistics derived from external market sources including IRI and RISI.

Use of tissue



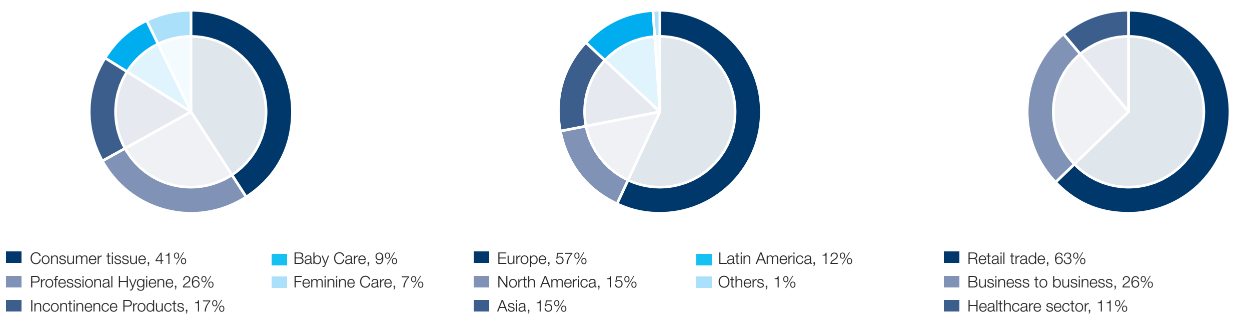
Source: The information has been compiled by Essity for presentation purposes based on statistics derived from external market sources including IRI, RISI and National Macro Economics.

Business overview

Essity is a leading global hygiene and health company. The Company develops, produces and sells products and solutions within the Business Areas Personal Care, Consumer Tissue and Professional Hygiene. Sales of hygiene and health products are conducted in about 150 countries under many strong brands, including the leading global brands TENA and Tork, and other brands, such as Leukoplast, Libero, Libresse, Lotus, Nosotras, Saba, Tempo, Vinda and Zewa. BSN medical, which was acquired in 2017, develops, manufactures and sells products within wound care, compression therapy and orthopedics under well-known brands such as Leukoplast, Cutimed, JOBST, Delta and Actimove.

Essity holds the number one or number two position within at least one product segment in some 90 countries. Distribution channels include the retail trade, online sales, pharmacies, sanitary shops, healthcare institutions and distributors. As of December 31, 2016, Essity had 42,520 employees and conducted manufacturing activities at 81 production facilities in over 30 countries. The acquisition of BSN medical adds a sales organization with sales in approximately 140 countries, production in eleven countries and a total of approximately 6,000 employees, with a sales organization of approximately 1,650 employees, as of December 31, 2016. Essity's net sales by product segment, region and distribution channel for 2016 (excluding BSN medical) are presented in the graphs below. During 2016, Consumer Tissue accounted for 41% of net sales, Professional Hygiene for 26% and Personal Care's product segments Incontinence Products, Baby Care and Feminine Care accounted for 17%, 9% and 7% respectively. Essity's sales in Europe accounted for 57% of the net sales, North America and Asia accounted for 15% each and Latin America for 12%. Sales to the retail trade accounted for 63% of net sales, business-to-business for 26% and the healthcare sector for 11%. See "*Medical Solutions*" below for separate graphs presenting BSN medical's net sales by product segment, region and distribution channel for 2016.

Share of net sales 2016 by product segment, region and distribution channel



Source: The information has been derived from the Company's internal accounting system and has not been audited.

History

Essity's heritage goes back to 1929 when the company SCA was founded in Sweden. Over the years, the company has expanded geographically and into other markets, for example, in hygiene and health, with business activities such as Personal Care, Consumer Tissue and Professional Hygiene.

Essity has during the last four decades grown to represent a large share of SCA's operations. SCA's history within hygiene dates back to the acquisition of Mölnlycke in 1975. Through a number of growth initiatives and corporate acquisitions and strategic divestments, the entity which is now Essity has continuously developed into a leading global hygiene and health company. The most important milestones in Essity's recent history are presented below.

- **1975–2006 – Expansion into hygiene products.** Following the acquisition of Mölnlycke in 1975, a majority shareholding in the German company PWA was acquired in 1995. In 2001, the Company gained a strong position in North America by acquiring Georgia-Pacific's US professional hygiene business.
- **2007–2016 – Creating a global hygiene business.** The transformation into a global hygiene company continued in the 2000's, driven by acquisitions such as Procter & Gamble's European tissue business, Asian hygiene products company Everbeauty, Georgia-Pacific's European tissue business, becoming the majority shareholder in Vinda, a Chinese tissue company, and acquiring Wausau Paper Corp. ("**Wausau**"), one of the largest professional hygiene companies in North America. The Company has also discontinued operations within certain product categories and markets in order to address weak market positions.
- **2017 – Increasing focus on hygiene and health business.** Acquisition of BSN medical, a leading global medical solutions company. BSN medical supports Essity's vision of improving well-being through leading hygiene and health solutions. SCA's 2017 Annual General Meeting decided to split the SCA Group into two separate listed companies: one to operate the hygiene business, one to operate the forest products business.

Vision, mission, objectives and strategies

Essity's strategic framework is described below.

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

STRATEGIES

- Win in chosen **geographies** and **categories**
- Focus on **customers** and **consumers**
- **Innovate** bigger **brands**
- Drive **efficiency**

Win in chosen geographies and categories

Essity strives to hold a number one or two position in the geographies and categories where the Company chooses to operate. The Company compares itself with the best competitors in each product category in each geographic market and aims to perform better or in line with the best competitor. Essity has a clear priority for which geographic markets it wants to operate in, and which product categories it will offer in these markets.

Focus on customers and consumers

Essity is there for its customers and consumers. Important competitive advantages for Essity are the Company's understanding, knowledge and insight into the needs and purchasing behavior of customers and consumers, global expertise, strong customer relations and knowledge about local and regional market conditions. To understand their needs and expectations, the Company is engaged in a continuous dialog with customers and consumers. Essity uses various types of market and customer surveys to create customer understanding and consumer insight, which determine the innovations it develops and how the Company formulates and implements its business strategy.

Innovate bigger brands

Successful innovations and strong brands go hand in hand. Innovative products and solutions simplify everyday life for people and strengthen Essity's brands and market positions. Strong brands mean that the Company can increase the impact of its innovations. Essity's innovation strategy is to increase the pace of innovation, 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. Central to this work is establishing the right structures and streamlining all parts of the business. A lasting positive impact on earnings can be achieved when all areas of Essity cooperate using an integrated and efficient approach. By improving efficiency and maximizing production, minimizing waste and continuously finding ways to reduce material and logistics costs, the Company will strengthen its competitiveness, cut costs and improve profit while reducing its environmental impact. Essity is working to benefit from global economies of scale and expertise to streamline all parts of the business and establish a world-class supply chain.

Financial targets and dividend policy

The Board of Essity has adopted the following financial targets and dividend policy for the Group:

Organic sales growth

Essity's target is an annual organic sales growth of above 3%.[1)]

Adjusted return on capital employed

Essity's target is an adjusted return on capital employed of above 15%.[2)]

Capital structure

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

1) See "*Key figures for the Group*" in the section entitled "*Selected historical financial information*".
2) See "*Key figures for the Group*" in the section entitled "*Selected historical financial information*".

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.

Strengths and competitive advantages
Leader in attractive and growing hygiene and health market
Essity is today 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. Increased prevalence of, and life expectancy of people with chronic diseases, such as obesity and diabetes, also support future growth in the market for healthcare products.

Strong presence in emerging markets
Essity holds a strong position in several key emerging markets, such as China, Latin America and Russia. Essity is the majority owner in Vinda, one of China's largest hygiene companies. Emerging markets accounted for 35% of Essity's net sales in 2016. 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 is today a leading global hygiene and health company with sales in about 150 countries. Essity is the global market leader in incontinence products under the TENA brand and in professional hygiene under the Tork brand. In addition, the Company has strong brands and market positions within the markets for baby diapers, feminine care, consumer tissue as well as regional and global brands and leading market positions in wound care, compression therapy and orthopedics with brands such as JOBST and Leukoplast. Essity holds the number one or number two position within at least one product segment in some 90 countries.

Successful innovations
Essity's product offerings simplify everyday life for millions of people worldwide. Innovations and product launches are highly prioritized to increase customer and consumer value, as well as to reduce resource consumption in all stages of the value chain. Essity focuses on digitalization in many areas, not least through e-commerce with customers and consumers appreciating the opportunity to buy items online. During 2016, Essity further developed its customer and consumer offerings and launched 23 innovations.

Focus on efficiency improvements and cost savings
Essity continuously works to improve efficiency in order to strengthen competitiveness, cut costs and improve earnings. By streamlining the supply chain and by better leveraging economies of scale, a more effective value chain can be achieved. Enhanced capital efficiency, lower costs and strengthened cash flow are enabled through efficiency 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.

Track record of profitable growth and strong cash flow
Through continuous work to grow profitable market positions, improve or exit underperforming positions, successful innovation programs and efficiency enhancements, Essity has over time demonstrated profitable growth and strong cash flow. Between 2014 and 2016, Essity's net sales increased by 15%, of which organic sales increased by 9%. During the same period, adjusted EBITA[1] increased by 26% and adjusted EBITA margin[2] increased from 10.8% to 11.8%. During the same period, adjusted operating profit[3] increased by 26% and adjusted operating margin[4] increased from 10.6% to 11.7%. The Company has generated strong cash flow and in 2016 cash flow from operating activities amounted to SEK 12,778m.

Sustainability – good for society, good for business, good for Essity's stakeholders
Long-term value creation is achieved if companies simultaneously create value for their operating environment. By turning social challenges into business opportunities, Essity creates conditions for profitable growth. Essity also creates value that encompasses the economic, social and environmental dimensions, which the Company's offering within the market for incontinence products is a good example of. Through hygiene education programs and sustainability work, Essity improves people's health and quality of life at the same time as demand for the Company's products increases.

[1] Excluding items affecting comparability. Non-IFRS measure, unaudited (alternative performance measure). See "*Reconciliation of non-IFRS measures*" in the section entitled "*Selected historical financial information*".
[2] Excluding items affecting comparability. Non-IFRS measure, unaudited (alternative performance measure). See "*Reconciliation of non-IFRS measures*" in the section entitled "*Selected historical financial information*".
[3] Excluding items affecting comparability. Non-IFRS measure, unaudited (alternative performance measure). See "*Reconciliation of non-IFRS measures*" in the section entitled "*Selected historical financial information*".
[4] Excluding items affecting comparability. Non-IFRS measure, unaudited (alternative performance measure). See "*Reconciliation of non-IFRS measures*" in the section entitled "*Selected historical financial information*".

Business Areas

Essity divides and reports its operations in three segments corresponding to the three Business Areas – Personal Care, Consumer Tissue and Professional Hygiene. Medical Solutions, a part of Essity's offering following the closing of the acquisition of BSN medical on April 3, 2017, will be included in the Business Area Personal Care, along with Incontinence Products, Baby Care and Feminine Care. Essity's market positions in each respective product segment (excluding Medical Solutions) is illustrated in the table below.

Essity's market positions

	Global	Europe	North America	Latin America	Asia
Incontinence Products	#1	#1	#4	#1	#3
Baby diapers	#4	#2	–	#6	#6
Feminine Care	#6	#3	–	#1	#12
Consumer Tissue	#2	#1	–	#3	#1
Professional Hygiene	#1	#1	#2	#3	#3

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

Personal Care

Personal Care includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Essity had, previous to the acquisition of BSN medical, already significant sales to the healthcare sector through incontinence institutional operations. Products are sold under Essity's brands, such as Libero, Libresse, Nosotras, Saba and TENA as well as under retailers' brands.

Personal Care generated SEK 34bn in net sales in 2016 and accounted for 33% of Essity's net sales in 2016, distributed between Incontinence Products 53%, Baby Care 28% and Feminine Care 19%. Europe accounted for 59% of Personal Care's net sales in 2016, Latin America 19%, Asia 11%, North America 8% and other geographies 3%. For more information regarding historical geographical sales split, see "*Financial information per region*" in the section entitled "*Selected historical financial information*". Distribution channels for the products are the retail trade, online sales, pharmacies and healthcare institutions. At the end of 2016, Personal Care had production at 27 plants in 21 countries. Medical Solutions, a part of Essity following the acquisition of BSN medical on April 3, 2017, will be included in Personal Care as of Q2 2017 and comprises products within wound care, compression therapy and orthopedics. As such, sales of Medical Solutions are not represented in the financial information presented below. BSN medical operates 15 manufacturing sites in eleven countries.

Personal Care operations

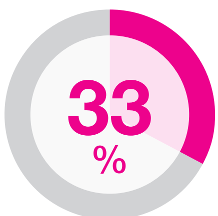
Incontinence Products

Offering and market position – Essity offers a broad range of incontinence products under the globally leading brand TENA. TENA is a so-called "billion dollar brand" with annual net sales exceeding SEK 15bn. Essity's offering, including both products and services, improves the quality of life for consumers. They reduce 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.

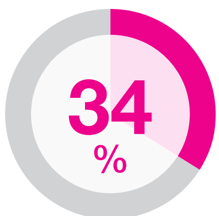
Examples of brands

TENA, Libero, Libresse, Bodyform, Drypers, Pequeñin, Saba, Nosotras, Leuko, Cutimed®, JOBST®, Actimove®, Delta

Net sales Personal Care
(share of Group's net sales 2016)



Adjusted operation profit Personal Care[1)]
(share of Group's net sales 2016)



[1)] Non-IFRS measure, unaudited (alternative performance measure). See "*Reconciliation of non-IFRS measures*" in the section entitled "*Selected historical financial information*".

Source: The information has been derived from the Group's audited consolidated financial statements. For additional information, see "Historical financial information".

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 within the market for incontinence products with a global market share two times larger than the second largest player. Essity is the market leader in Europe, Asia (excluding Japan) and Latin America, and holds the number three position in Asia (including Japan).

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 through increasing market shares and penetration and by broadening the customer offering by increasing sales in such segments as skincare products and wet wipes. 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.

In North America, the situation for Essity's TENA brand has been more challenging and the priority has been to achieve satisfactory profitability ahead of sales growth. Actions have been taken to reduce costs, discontinue unprofitable products and focus on fewer but more profitable products. For example, TENA Overnight Underwear was launched in North America in 2016.

Since incontinence is surrounded by social taboos in many regions of the world, Essity believes it is important to raise understanding and acceptance of the condition to enhance the quality of life for people suffering from incontinence. Essity does this by:

- Working actively to break the taboos surrounding incontinence and continuing to invest to increase market penetration by providing information and through 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.

Baby Care

Offering and market position – Essity offers open baby diapers and pant diapers, as well as products such as wet wipes, shampoo, lotion and baby oil, and is the world's fourth largest player in the area and the second largest in Europe. In Europe, the Company markets baby diapers under its own Libero brand and under 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 the profitability in the Baby Care product segment. The strategy is to hold the number one or two position in the selected markets in which Essity is represented. For Baby Care, Essity believes it is important to have a premium or super-premium offering in order to be competitive. Through continuous innovation activities, Essity develops its customer offering for both its branded and retailer-branded product ranges. In 2016, the Libero brand launched a new premium offering, Libero Newborn and Libero Comfort. As part of its efforts to address weak market positions with inadequate profitability, Essity closed its baby diaper operations in Brazil in 2015, and also closed its Baby Care operations in Mexico during the fourth quarter of 2016. In addition, the hygiene business in India was discontinued during the first quarter of 2017, the majority of which was related to Baby Care.

Feminine 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 within the product segment and the third largest in Europe. The Company is the market leader in Latin America. A large and growing share of Essity's sales takes place in emerging markets such as Latin America, Russia, Eastern Europe, the Middle East and Asia. Examples of regional brands supported by the Company's global brand platform include Libresse in the Nordic region, Russia and Malaysia, Bodyform in the United Kingdom, 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 within the product segment Feminine Care globally and to increase sales while maintaining good profitability. Essity uses 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. 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 break 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

Offering and market position – Essity's Medical Solutions product segment originates from the acquisition of BSN medical, a leading medical solutions company acquired on April 3, 2017.[1)] BSN medical develops, manufactures and sells products within wound care, compression therapy and orthopedics. BSN medical is an innovative medical solutions company with well-known brands such as Leukoplast, Cutimed, JOBST, Delta and Actimove. Medical Solutions had sales in approximately 140 countries and production in eleven countries as well as approximately 6,000 employees, as of December 31, 2016. The largest markets in terms of sales in 2016 were Europe, North America and Asia Pacific. Distribution channels are mainly hospitals/specialists, pharmacies and sanitary shops. Essity's operations within the product segment Medical Solutions has a sales organization consisting of approximately 1,650 employees.

Following the acquisition of BSN medical, Essity's product segment Medical Solutions offer products and solutions within wound care, compression therapy and orthopedics. Essity is the world's fourth largest player within the product segment. Essity's acute wound care offering contains a broad range of products including surgical tapes, retention bandages, surgical/post-operation dressings and adhesive bandages/plaster, and advanced wound care, with products for treatment of difficult and complex wounds. Essity holds the number two position globally within acute wound care. Essity recently expanded its advanced wound care offering to include pump technology. Within compression therapy, Essity offers a broad range of phlebology[2)] products including compression stockings, medical compression garments, and lymphology[3)] products such as compression bandages, wraps, garments and pneumatic compression pumps. Essity is the number one global provider of compression therapy products. Within orthopedics, Essity offers a

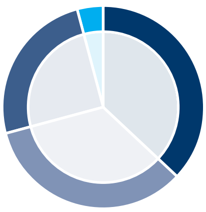
[1)] The information has been compiled by Essity for presentation purposes based on statistics derived from external market sources including SmartTRAK and INSIGHT Health.
[2)] Phlebology refers to the branch of medicine studying veins.
[3)] Lymphology refers to the branch of medicine studying lymphatic vessels.

broad range of products within fracture management, including cast tape, splinting, casting accessories, physiotherapy, with products for support bandages and tapes, and orthopedics soft goods and braces, including support bandages and tapes. Essity holds the number one market position globally within both fracture management and physiotherapy.

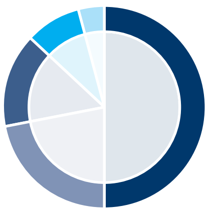
BSN medical's sales by products, by geography and by channel for 2016 are presented below.

Strategy – Essity believes that the acquisition of BSN medical is an excellent strategic fit for Essity and supports Essity's vision dedicated to improve well-being through leading hygiene and health solutions, two closely interlinked areas. BSN medical has leading market positions in several attractive medical product categories and provides a new growth platform with future industry consolidation opportunities. Essity's incontinence business, with the global leading TENA brand, shares similar positive market characteristics, customer and sales channels with BSN medical, which provides opportunities for accelerated growth through cross-selling. BSN medical has a high cash conversion and an asset light business model. The acquisition is expected to realize annual synergies of at least EUR 30m, with full effect three years after closing. Restructuring costs are expected to amount to approximately EUR 10m and are expected to be incurred in the first three years following completion.

Sales by products
(share of BSN medical 2016)



Sales by geography
(share of BSN medical 2016)



Sales by distribution channel
(share of BSN medical 2016)

Source: The information has been derived from BSN medical's internal accounting system and has not been audited.

Consumer Tissue

Essity's Consumer Tissue product offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Products are sold under Essity's own brands, such as the brands Lotus, Regio, Tempo and Zewa, and under retailers' brands.

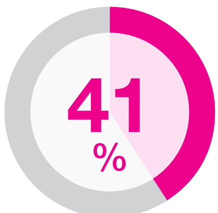
Consumer Tissue operations

Offering and market position – Essity is the world's second largest supplier of consumer tissue. Consumer Tissue generated SEK 42bn in net sales in 2016, which accounted for 41% of Essity's net sales in 2016. Europe accounted for 65% of Consumer Tissue's net sales in 2016, Asia 24% and Latin America 11%. At the end of 2016, Consumer Tissue had production at 46 sites in 17 countries. 23 of the 46 sites also had production of Professional Hygiene.

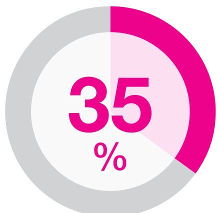
In Europe, Essity is the market leader within the market for consumer tissue and holds a market share that is approximately double that of the second largest player. Essity also holds strong positions in several emerging markets, such as in Russia and Colombia, where the Company is the market leader, and in Mexico, where it holds the number two position. Essity is the number one in China through its majority shareholding in Vinda. Products sold under Essity's own brands account for about 64% of sales, while the remaining 36% are sold under retailers' brands. Essity's brand portfolio comprises many strong regional and local brands. Tempo, Zewa and Lotus are the leading brands in large areas of Europe, 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.

Examples of brands

Net sales Consumer Tissue
(share of Group's net sales 2016)



Adjusted operating profit Consumer Tissue[1)]
(share of Group's net sales 2016)



1) Non-IFRS measure, unaudited (alternative performance measure). See "*Reconciliation of non-IFRS measures*" in the section entitled "*Selected historical financial information*".

Source: The information has been derived from the Group's audited consolidated financial statements. For additional information, see "Historical financial information".

In South America, the Company markets products under the Familia and Favorita brands, and holds strong positions in emerging markets including Colombia, Chile and Ecuador. In the Mexican market, Essity holds a strong position with the Regio brand. Vinda is the leading brand in China.

Strategy – In the markets where Essity is represented, the strategy is to be the leading supplier of strong brands by maintaining a high pace of innovation and successful brand marketing. Essity is also focused on expanding its product categories to further strengthen the customer offering. For example, in 2016, a moist toilet paper was launched under the Lotus brand as well as wet wipes under the Tempo brand.

For Consumer Tissue, Essity has assigned priority to increase 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, Essity aims to be the best retailer-branded supplier.

Professional Hygiene

The Professional Hygiene Business Area develops and sells complete hygiene solutions, including toilet paper, paper towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, sensor technology, service and maintenance. Customers within Professional Hygiene comprise institutions and companies, including care institutions, offices, universities, industries, restaurants, hotels and venues.

Professional Hygiene operations

Offering and market position – Essity is the world's largest supplier of products and solutions within the market for professional hygiene under the global Tork brand. Tork is a so-called "billion dollar brand" with annual net sales exceeding SEK 15bn.

Professional Hygiene generated SEK 26bn in net sales in 2016, which accounted for 26% of Essity's net sales in 2016. North America accounted for 46% of Professional Hygiene's net sales in 2016, Europe 43%, Asia 5%, Latin America 5% and other geographies 1%. At the end of 2016, Professional Hygiene had production at 36 sites in 18 countries. 23 of the 36 sites also had production of Consumer Tissue. The products are distributed through distributors and service companies. Essity is the market leader in Europe and holds a market share that is approximately double that of the second largest player. Following the acquisition of Wausau, which was completed in January 2016, Essity is the second largest supplier in North America. Essity's market position is particularly strong in the food service segment in North America, where the Company estimates that approximately every second napkin is supplied by the Company. Essity holds strong positions in emerging markets, such as, Russia and Colombia, where the Company is the market leader.[1)] The global brand Tork provides significant synergies since differences in customer requirements are minimal in regard to tissue and dispensers in the various parts of the world.

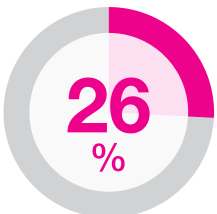
Strategy – Essity is prioritizing activities to strengthen Tork's global market-leading position through profitable growth, expanding at a faster rate than the market and growing to become a market leader in North America. Essity is focusing on increasing customer satisfaction and loyalty by helping its customers to be more efficient and environmentally friendly and by improving hygiene standards. Great emphasis is put on sustainability. For example, Essity relaunched Tork SmartOne® with a new design and new functions in 2016. Tork SmartOne® is a toilet paper solution designed for use in demanding environments, such as schools, hospitals, stadiums and airports. These public places often have washrooms with high traffic where stringent demands are placed on cost control and good hygiene. Consumption of toilet paper can be reduced by up to 40% compared with traditional jumbo roll dispensers. The single-sheet dispensing system also improves hygiene and reduces the risk for pipe blockages.

In 2016, Essity worked on the integration of Wausau. Essity believes that the acquisition is an excellent strategic fit for Essity and strengthens the Company's presence and production capacity in North America. The Wausau product portfolio complements Essity's offerings in North America. 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 SG&A costs. The restructuring costs are expected to amount to approximately USD 50m.

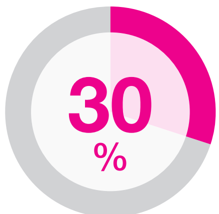
1) The information has been compiled by Essity for presentation purposes based on statistics derived from external market sources including RISI.

Example of brand

Net sales Professional Hygiene
(share of Group's net sales 2016)



Adjusted operating profit Professional Hygiene[1)]
(share of Group's net sales 2016)



1) Non-IFRS measure, unaudited (alternative performance measure). See "*Reconciliation of non-IFRS measures*" in the section entitled "*Selected historical financial information*".
Source: The information has been derived from the Group's audited consolidated financial statements. For additional information, see "Historical financial information".

Supply and customer agreements
The raw material supply agreements are to a large extent handled by Essity's global sourcing department and generally based on local spot market prices. Essity's Business Areas are Personal Care, Consumer Tissue and Professional Hygiene. In Consumer Tissue and Professional Hygiene, most supply agreements run on short term (normally one year). In Personal Care, Essity has longer relationships with its suppliers and agreements normally run for 4–5 years.

The customer agreement situation varies between Essity's different Business Areas. Customers within Personal Care are to a large extent either large supermarket chains or buying groups of such chains that enter into framework agreements with Essity for the different Personal Care product ranges or government entities, hospitals and similar costumers that purchase Personal Care's incontinence and medical solutions products under tenders. Incontinence products are also sold directly to end-customers by newly launched own web shops. Consumer Tissue generally sells its products to the same large supermarket chains and buying groups as the Personal Care Business Area and under the same or similar framework agreements. Professional Hygiene sells mainly to distributors that distribute their products to end customers and redistributors. Professional Hygiene has also entered into agreements directly with major restaurant and fast food chains. Sales within Latin America are for all Business Areas to a large extent conducted through distributors and distributors are to some extent granted exclusivity within their territory.

Tissue roadmap
To improve efficiency and further increase value creation within the Consumer Tissue and Professional Hygiene Business Areas, a "Tissue Roadmap" was launched during 2016. This consists of a ten-year 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. It balances structural and organic efficiency opportunities in the supply chain with capacity expansion in selected markets. In Europe, measures were implemented during 2016 to further enhance efficiency and strengthen competitiveness. A tissue production plant in Sant Joan de Mediona, Spain, was closed and restructuring measures were carried out at production facilities in Hondouville and Saint-Etienne-du-Rouvray in France.

Innovation
Successful innovations and strong brands go hand-in-hand. 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. Essity's innovation work is supported by the Company's innovation teams across the globe and an established innovation culture as well as the will to continuously increase customer and consumer value. During 2016, Essity further developed its customer and consumer offerings and launched 23 innovations. Essity's innovation process is deeply embedded in the Company's strategy and business model.

A large part of Essity's innovations is focused on products and solutions, but realizing success in today's digital landscape requires more than just good products. It requires creative forward-looking strategies that embrace new channels and technology. The Company's innovation activities consider market trends, new technology and new business models. Essity's focus on digitalization has continued in many areas, not least in e-commerce.

Increased customer and consumer value
Innovation is key to satisfying new or evolving needs in a fast-moving world. The focus is always on customer and consumer value. All Essity's innovation work starts with an insight about a customer or consumer need. The Company's yearly market insights include interaction with over 150,000 people to ensure that the Company truly understands customer and consumer needs. The Company's innovation activities also consider market trends, new technology and new business models. Essity takes sustainability aspects and product safety into consideration throughout the process. The Company's innovation strategy is to increase the pace of innovation, capitalize on global economies of scale and ensure that all product segments have a competitive and balanced portfolio of innovations. Essity has a particular focus on exploring opportunities to broaden its existing product portfolio and to expand its offering of products and solutions to further increase customer and consumer value.

Innovative marketing
A large part of Essity's innovations is focused on products and solutions, but realizing success in today's digital landscape requires more than just good products. It requires creative forward-looking strategies that embrace new channels and technology to deliver bold and consumer-friendly campaigns that get messages across. This underlines, the Company believes, the importance of being innovative in how to engage and socially interact with customers and consumers in order to build bigger brands and customer loyalty. One example of a campaign that received positive attention and won awards, including the Cannes Gold Lion, is the 'Red.fit' campaign for one of Essity's feminine care brands, Libresse. The 'Red.fit' campaign challenges the taboos that surround menstruation in the world of sport.

Resource-efficient production
Equally important are the innovations that facilitate and increase efficiency in Essity's supply chain. The Company strives continuously to find the best way to streamline and maximize production, minimize waste and reduce material and logistics costs by developing the right technology in close cooperation with suppliers, by rebuilding machines and by launching innovations in time with the right quality. Essity aims to improve resource efficiency and reduce environmental impact. All parts of the value chain need to cooperate and interact to achieve the best results.

Examples of innovations 2016

Incontinence Products

TENA Lady Mini and Maxi Night TENA Lady Mini and TENA Maxi Night with Triple Protection are specifically designed to give a good night's sleep. The products have extra absorbency and leak-proof solutions to maintain a dry and comfortable feeling even when lying down. The night products have, together with all other TENA Lady products, both Silky Softness and Fresh Odour control for a soft feel and optimal discretion.	*Lights by TENA* Ultra thin pads are body-shaped to offer a better fit. A top-sheet that dries rapidly for lasting dryness and freshness. It offers optimal protection without compromising on discretion. FeelFresh Technology quickly encapsulates moisture and controls odors from unexpected little leaks, to help consumers feel fresh and secure all day long.

Baby Care

Libero Comfort Libero Comfort has been given new and softer leakage barriers made from a completely new material with a cotton feel. The new, highly soft barrier fits gently around the legs and offers a diaper that is pleasant to wear. The new Libero Comfort is comfortable and keeps the child's skin dry at all times – day and night. The new Libero Comfort is also dermatologically tested.	*Libero Newborn* Libero Newborn with GentleCare has a new, softer lining material that is adapted to the new-born infant's sensitive skin, without compromising on absorption. The new lining material has a comfortable cotton feel, which provides the softness that is important for the youngest babies. The new Libero Newborn is also dermatologically tested.

Feminine Care

Libresse ProSkin-Formula Libresse is upgrading its range of panty liners with a new product that both allows air to pass through and contains ProSkin Formula, a pH-balanced lactic acid. Libresse ProSkin Formula is a panty liner that not only protects underwear but is also gentle on a woman's sensitive, intimate skin.	*Ultra thin pads* Ultra thin pads in the premium range of products have been upgraded. Pads with SecureFit™ and Triple Protection are specially designed to offer a good and secure fit. The pad has extra leakage security in the back, a core that absorbs quickly and barriers along the edges for best comfort and security.

Consumer Tissue

Lotus Moist toilet paper Lotus moist toilet paper is a perfect complement to dry toilet paper, for a fresh and clean feeling. The premium range of Lotus moist toilet paper is available in four different versions.	*New Okay® Compressed household towels* The new Okay® Compressed household towels are manufactured using patented technology that compresses the individual sheets, and makes Okay® Compressed less bulky than ordinary household towels. It is both easier to carry and store and uses 30% less packaging.	*New global visual identity for household towels* In 2016, Essity launched, for the first time, a global packaging design for its household towels. The aim is to further strengthen the various brands by harmonizing the appearance and feel of the packaging in different markets.

Professional Hygiene

Tork Washstation Dispenser A paper dispenser with a high capacity that contains extra-long rolls (350 meters) is designed to be easy to clean and thereby hygienic. The dispenser is water resistant.	*Tork Easy Handling™ packaging for toilet paper* Tork Easy Handling™ packaging is designed to make life easier for anyone who works daily with products from Tork. The new packaging for Tork SmartOne® toilet paper rolls is easy to carry and has a perforated opening that saves time and make it easier when you need to carry packaging that has already been opened. This means cleaning staff can carry out their duties faster, more efficiently and with better ergonomics that is less physically demanding.

Essity launched five innovations during the first quarter of 2017. In Latin America, the Company launched innovations in Consumer Tissue under the Familia brand and in Feminine Care under the Saba brand. In Russia, the Baby Care offering under the Libero brand was upgraded.

For Incontinence Products, two innovations under the globally leading TENA brand were launched. In France, during April 2017, the Company launched products in Baby Care under the strong Lotus brand.

Sustainability

Essity's operations are based on a sustainable business model where value creation for people and nature drives growth and profitability. Essity has set ambitious targets in areas that are important for the Company and its stakeholders, such as in hygiene solutions, sustainable innovations, people and nature innovations, health and safety, climate and energy, production waste, and water.

The transition from a linear economy, where we manufacture new and dispose of the old, to a circular economy, where we minimize resource consumption and waste, and where we recycle and reuse, will require companies and society to think in new and innovative ways. One of Essity's overall objectives is to contribute towards a sustainable and circular society. This means that the Company will continue to strive to make products and services more effective, work with resource efficiency throughout the value chain and to intensify innovation efforts to create solutions that work in a circular society. This target also comprises reducing production waste and, together with partners, finding solutions to take care of products after use.

Hygiene education is, and has been for a long time, a highly prioritized area. The Company conducts regular educational initiatives in, for example, hand washing and teaches preschoolers about the importance of hand hygiene. During 2016, two million people were given hygiene training through programs offered by Essity worldwide. Essity works actively to break the taboos surrounding incontinence and menstruation and continues to invest to increase market penetration by providing information and through marketing activities, training and global forums. In addition, the Company publishes the "Hygiene Matters" report to raise awareness regarding health, hygiene and well-being.

The Company also devotes considerable focus to its health and safety efforts with a vision of zero workplace accidents. The accident frequency rate decreased by 34% between 2014 and 2016.

Ethics are another priority and Essity continuously carries out employee training in order to minimize the risk of unethical behavior in the operations. At the end of 2016, 91% of Essity's employees had received training in Essity's code of conduct.

Essity's global supplier standard will be used to drive shared values and priorities throughout the supply chain. At the end of 2016, 46% of Essity's sourcing costs came from suppliers that had committed to follow the criteria in the Company's global supplier standard.

Essity is included in a number of Sustainable Rating Indexes including the CDP, an international non-profit organization that works to promote sustainable economies, 2016 Climate A List for climate change leadership and recognition as a world leader for corporate action on climate change. Essity also qualified for a position on the CDP 2016 Forest A List and received an A-rating (leadership level) in CDP's 2016 Global Water Report.[1)]

Following the completion of BSN medical acquisition, Essity has begun integrating the Company's sustainability framework within BSN medical. Essity has a higher standard of controls and targets, and has been sharing its best-practices with BSN medical. It is Essity management's ambition that BSN medical will be on par with Essity in this regard over the short to medium term.

Organization and employees

Operational structure

Essity has the following four Business Units:

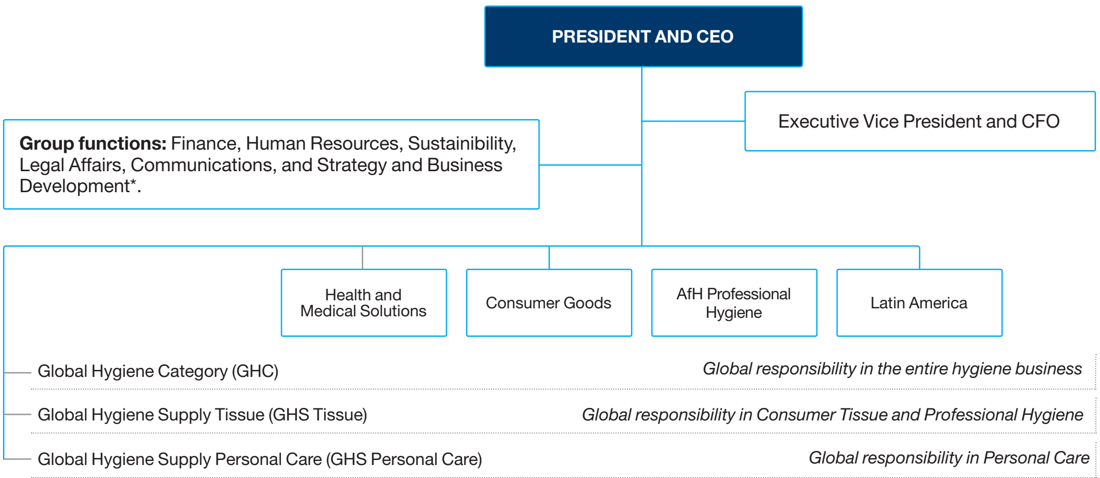
- **Health and Medical Solutions**, which offers incontinence products in Europe and North America and medical solutions globally.
- **Consumer Goods**, which offers personal care products and tissue in Europe, the Middle East and Africa.
- **Latin America**, which offers personal care products and tissue in Latin America.
- **AfH Professional Hygiene**, which offers products and solutions within 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 in the hygiene area.
- **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

Organization



* The Stratgy 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.

1) These awards are based on the sustainability work in the SCA Group as constituted before the distribution, and thus on the sustainability efforts of both Essity and SCA.

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.

Employees

As of December 31, 2016, Essity had 42,520 employees. During 2016, the average number of employees outside Sweden represented 95.3% of the total average number of employees.

Number of employees	2016	2015	2014
At the end of the period	42,520	40,147	39,837
Average	42,149	39,951	40,165
Women, %	32	31	33
By Business Area			
Personal Care	13,237	12,779	13,063
Consumer Tissue	20,880	20,021	20,518
Professional Hygiene	8,032	7,151	6,583
By region			
Europe	17,577	17,468	17,614
Asia	11,117	10,162	10,272
Latin America	8,749	8,425	8,299
North America	3,659	2,778	2,799
Rest of the world	1,047	1,118	1,181

Research and development

Essity has advanced product development processes within the core product categories in order to ensure that the products are safe, easy-to-use and of high quality. Essity's focus on customer and consumer insight guides its innovation activities, ensuring that new products and services 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.

More than 500 employees within Essity are dedicated to research and development, divided into three different R&D departments supporting a broad product portfolio including more than 500 product categories.

See "*Research and development expenses*" in the section entitled "*Operational and financial review*" for a description of Essity's expenses in relation to research and development.

Intellectual property rights, etc.

Essity relies upon patents, proprietary expertise, continuing technological process innovations and other trade secrets to develop and maintain the Company's competitive position. With the strong focus on its brands and product development leadership within the Group, the focus is naturally also very high on ensuring a strong intellectual property rights management across product categories and geographies.

Essity has established strategies for each product category that provide guidance on the prioritized areas for intellectual property activities e.g. for protection, enforcement, opposition of intellectual property rights. The centralized intellectual property department, consisting of more than 40 employees, has integrated patent and trademark attorney teams that mirror the categories for application of relevant IP protection.

Essity currently holds approximately 9,600 patent rights (pending and/or granted) worldwide and seeks to protect trade secrets by entering into confidentiality agreements with third-party developers. In addition, Essity seeks to ensure that information is exchanged only to the extent necessary in communications with customers and suppliers.

Selected historical financial information

*The below selected condensed financial statements pertaining to the financial years 2014–2016 have been derived from the Group's audited consolidated financial statements for the financial years 2014–2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the EU and audited by the Company's auditor Ernst & Young AB in respect of 2016 and by PricewaterhouseCoopers AB in respect of 2014–2015. The condensed financial statements (as well as measures defined under IFRS) pertaining to the first three months of 2017 and 2016 have (unless otherwise stated) been derived from the Group's interim report for the period January–March 2017, which has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act (årsredovisningslagen (1995:1554)). The interim report has been reviewed by the Company's auditor in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. For further information on how the reporting is made, see accounting principles on p. F-24 and F-38 and onwards in the section entitled "Historical financial information".*

The prospectus also presents certain performance measures that are not defined under IFRS (alternative performance measures). These measures have not been reviewed or audited by the Company's auditors. Essity believes that these measures are helpful and commonly used by certain investors, securities analysts and other interested parties as supplementary measures of performance trends and financial position. Essity's non-IFRS measures may not be comparable to other similarly titled measures presented by other companies and have certain limitations as analysis tools. Consequently, they should not be considered in isolation of or as an alternative to Essity's financial information prepared in accordance with IFRS.

The information below should be read in conjunction with the section entitled "Operational and financial review" and the Group's consolidated financial statements for the financial years 2014–2016 and for the period January–March 2017 and 2016, which have been included in this prospectus (see the section entitled "Historical financial information"). All statements are available on Essity's website, www.esstity.se.

Other than as stated above, no information in this prospectus has been reviewed or audited by the Company's auditors.

Condensed consolidated income statement

SEKm	Jan–Mar 2017 (unaudited)	Jan–Mar 2016 (unaudited)	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Net sales	25,268	24,248	101,238	98,519	87,997
Cost of goods sold	–18,050	–17,576	–72,438	–71,898	–64,081
Items affecting comparability – cost of goods sold	–212	–22	–532	–267	–441
Gross profit	**7,006**	**6,650**	**28,268**	**26,354**	**23,475**
Sales, general and administration	–4,330	–3,960	–16,965	–16,216	–14,527
Items affecting comparability – sales, general and administration	–109	–164	–2,113	–25[1]	–568
Share of profits of associates and joint ventures	29	32	157	198	106
Operating profit before amortization of acquisition-related intangible assets (EBITA)	**2,596**	**2,558**	**9,347**	**10,311[1]**	**8,486**
Amortization of acquisition-related intangible assets	–21	–31	–159	–133	–126
Items affecting comparability – acquisition-related intangible assets	–88	–5	–180	–494	–
Operating profit	**2,487**	**2,522**	**9,008**	**9,684[1]**	**8,360**
Financial items	–266	–303	–835	–828[2]	–740
Profit before tax	**2,221**	**2,219**	**8,173**	**8,856**	**7,620**
Tax	–565	–594	–3,931	–2,278	–1,939
Profit for the period	**1,656**	**1,625**	**4,242**	**6,578**	**5,681**

1) Includes sales of securities, SEK 970m.
2) Excluding sales of securities, SEK 970m.

Condensed consolidated statement of comprehensive income

SEKm	Jan–Mar 2017 (unaudited)	Jan–Mar 2016 (unaudited)	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Profit for the period	**1,656**	**1,625**	**4,242**	**6,578**	**5,681**
Actuarial gains and losses relating to defined benefit pension plans, net after tax	543	–1,378	–1,148	1,515	–2,008
Available for sale financial assets	1	–2	–1	–652	140
Cash flow hedges	–187	–25	530	–108	–116
Translation differences in foreign operations	443	160	2,742	–1,944	5,125
Result from hedging of net investments in foreign operations	–177	–464	–437	–58	–1,497
Other comprehensive income/loss from associates	–29	–24	12	–17	–
Income tax attributable to components in other comprehensive income	91	117	–41	33	367
Other comprehensive income/loss for the period, net after tax	**685**	**–1,616**	**1,657**	**–1,231**	**2,011**
Total comprehensive income/loss for the period	**2,341**	**9**	**5,899**	**5,347**	**7,692**
Total comprehensive income attributable to:					
Owners of the parent	2,167	–41	5,222	5,113	6,651
Non-controlling interests	174	50	677	234	1,041

Condensed consolidated balance sheet

SEKm	Mar 31, 2017 (unaudited)	Mar 31, 2016 (unaudited)[1]	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Non-current assets					
Intangible assets	26,932	25,841	26,918	22,763	23,555
Buildings, land, machinery and equipment	47,882	44,659	47,494	42,402	43,599
Other non-current assets	4,012	3,094	3,878	3,084	5,214
Total non-current assets	**78,826**	**73,594**	**78,290**	**68,249**	**72,368**
Current assets					
Inventories	11,484	11,652	10,944	11,229	10,343
Trade receivables	15,628	14,966	15,843	14,808	14,912
Other current assets	6,259	16,360	4,963	16,237	17,036
Cash and cash equivalents	30,616	4,437	4,244	4,828	3,806
Total current assets	**63,987**	**47,415**	**35,994**	**47,102**	**46,097**
Total assets	**142,813**	**121,009**	**114,284**	**115,351**	**118,465**
Equity	**43,108**	**48,724**	**39,580**	**48,275**	**44,925**
Liabilities					
Non-current liabilities	61,449	30,992	41,971	29,170	33,068
Current liabilities	38,256	41,293	32,733	37,906	40,472
Total liabilities	**99,705**	**72,285**	**74,704**	**67,076**	**73,540**
Total equity and liabilities	**142,813**	**121,009**	**114,284**	**115,351**	**118,465**

[1] The information is not included in the Company's interim report for the period January–March 2017, but has been derived from the Company's internal accounting system.

Condensed consolidated cash flow statement

SEKm	Jan–Mar 2017 (unaudited)	Jan–Mar 2016 (unaudited)	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Profit before tax	2,221	2,219	8,173	8,856	7,620
Adjustment for non-cash items	1,545	1,211	6,791	4,635	4,384
Paid tax	–627	–662	–3,782	–2,194	–2,099
Cash flow from changes in working capital	**–252**	**–1,071**	**1,596**	**–517**	**–147**
Cash flow from operating activities	**2,887**	**1,697**	**12,778**	**10,780**	**9,758**
Cash flow from investing activities	**–1,123**	**–5,593**	**–10,119**	**–3,263**	**–4,909**
Cash flow from financing activities[1]	**24,609**	**3,496**	**–3,389**	**–6,391**	**–5,106**
Cash flow for the period	**26,373**	**–400**	**–730**	**1,126**	**–257**
[1] Including transactions between Essity and SCA excluding Essity. Net of transactions with shareholders and change of receivable from Group companies.	–716	368	–4,168	–2,607	–2,376

Condensed consolidated operating cash flow statement, supplementary disclosure

SEKm	Jan–Mar 2017 (unaudited)	Jan–Mar 2016 (unaudited)	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Net sales	25,268	24,248	101,238	98,519	87,997
Operating expenses	–21,132[1]	–20,348[1]	–84,498	–83,483	–74,466
Operating surplus	**4,136**[1]	**3,900**[1]	**16,740**	**15,036**	**13,531**
Adjustments for non-cash items	10[1]	0[1]	19	15	–10
Operating cash surplus	**4,146**	**3,900**	**16,759**	**15,051**	**13,521**
Change in working capital	**–253**	**–1,071**	**1,596**	**–517**	**–147**
Current capital expenditures	–596	–664	–4,222	–3,293	–2,861
Restructuring costs, etc.	–211	–231	–1,102	–801	–799
Operating cash flow	**3,086**	**1,934**	**13,031**	**10,440**	**9,714**
Financial items	–266	–303	–835	–828	–740
Paid tax	–627	–662	–3,782	–2,194	–2,099
Other	89	74	149	132	25
Cash flow from current operations	**2,282**	**1,043**	**8,563**	**7,550**	**6,900**

[1] The information is not included in the Company's interim report for the period January–March 2017, but has been derived from the Company's internal accounting system.

Distribution of items affecting comparability by function[1)]

SEKm	Jan–Mar 2017 (unaudited)	Jan–Mar 2016 (unaudited)	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Cost of goods sold	–212	–22	–532	–267	–441
Sales, general and administration	–109	–164	–1,754	–554	–478
Impairment, etc.	–	–	–359	–441	–90
Amortization and impairment on acquisition-related intangible assets	–88	–5	–180	–494	–
Gain on sale of securities	–	–	–	970	–
Total, Group[2)]	**–409**	**–191**	**–2,825**	**–786**	**–1,009**

1) Non-IFRS measure, unaudited (alternative performance measure).

2) In the first quarter of 2017, items affecting comparability include costs of approximately SEK 460m attributable to the split of the SCA Group into two listed companies, the largest component of which is a one-time foreign tax on non-current assets outside Sweden. Items affecting comparability for the first quarter of 2017 also include integration costs related to the acquisition of Wausau of approximately SEK 30m, restructuring costs of SEK 80m related to the closure of a tissue machine in the UK and other costs of SEK 104m. The derecognition of a provision related to an antitrust case in Poland had a positive effect of approximately SEK 265m. Items affecting comparability for the first quarter of 2016 primarily consisted of re-measurement effects concerning Wausau's inventory valuation in connection with the acquisition balance, transaction costs as well as a provision of approximately SEK 100m related to the ongoing review of the Colombian competition authority of the jointly owned company Productos Familia S.A., Colombia.

Items affecting comparability in 2016 include costs of SEK 1,086m related to ongoing antitrust cases in Chile, Colombia, Poland, Spain and Hungary; restructuring costs of SEK 757m mainly related to the closures of the tissue plants in Sant Joan de Mediona, Spain, and Saint-Cyr-en-Val, France, and restructuring measures at the Hondouville and Saint-Etienne-du-Rouvray production plants in France; costs of SEK 174m for the closure of the Baby Care business in Mexico; costs of SEK 374m for the discontinuation of the hygiene business in India; integration costs related to the acquisition of Wausau and inventory valuation in connection with the acquisition balance, together totaling SEK 204m; transaction costs of SEK 143m for BSN medical; other costs of approximately SEK 186m and a capital gain of SEK 99m attributable to the divestment of Essity's shareholding in IL Recycling.

In 2015, items affecting comparability include impairment of trademarks of SEK 465m; impairment of assets of SEK 375m and integration costs of SEK 440m related to the Georgia-Pacific acquisition; costs of SEK 170m related to the divestment of the business jet operation; and other which includes transaction costs of SEK 306m and a gain of SEK 970m from the sale of securities.

In 2014, items affecting comparability include restructuring costs and the re-measurement effects of customer relations and inventories in Vinda with SEK 292m; restructuring costs attributable to acquisitions and divestments with SEK 170m; other restructuring costs with SEK 181m; costs for integrating the Georgia Pacific acquisition amounts to SEK 122m; impairment related to operations in Asia SEK 57m; other items affecting comparability amount to SEK 187m.

Financial information per region

Net sales sold to, SEKm	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Europe	57,839	58,212	54,731
Asia	14,856	13,944	10,718
Latin America	12,431	12,937	11,324
North America	14,795	11,689	9,500
Others	1,317	1,737	1,724
Total, Group	**101,238**	**98,519**	**87,997**

Financial information per segment

Net sales, SEKm	Jan–Mar 2017 (unaudited)	Jan–Mar 2016 (unaudited)	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Personal Care	8,455	8,151	33,651	34,344	31,066
Consumer Tissue	10,473	10,238	41,560	41,657	37,051
Professional Hygiene	6,383	5,876	26,001	22,527	19,943
Other	–43	–17	26	–9	–63
Total, Group	**25,268**	**24,248**	**101,238**	**98,519**	**87,997**

Key figures

Key figures for the Group

SEKm if not otherwise stated (unaudited unless otherwise stated)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Capital employed[1]	75,230	74,520	74,753	67,333	69,991
Working capital[1]	3,831	6,375	4,143	5,165	5,232
Adjusted return on capital employed (%)[1]	*15.6*	*15.5*	*16.4*	*15.1*	*14.2*
Operating cash flow	3,086	1,934	13,031	10,440	9,714
Net debt[1]	32,122	25,795	35,173	19,058	25,066
Debt/equity ratio (%)	*0.75*	*0.53*	*0.89*	*0.39*	*0.56*
Gross profit[2]	7,006	6,650	28,268	26,354	23,475
Adjusted gross profit[1]	7,218	6,672	28,800	26,621	23,916
Adjusted gross profit margin (%)[1]	*28.6*	*27.5*	*28.4*	*27.0*	*27.2*
EBITA[1]	2,596	2,558	9,347	10,311	8,486
Adjusted EBITA[1]	2,917	2,744	11,992	10,603	9,495
Adjusted EBITA margin (%)[1]	*11.5*	*11.3*	*11.8*	*10.8*	*10.8*
Operating profit[2]	2,487	2,522	9,008	9,684	8,360
Adjusted operating profit[1]	2,896	2,713	11,833	10,470	9,369
Adjusted operating margin (%)[1]	*11.5*	*11.2*	*11.7*	*10.6*	*10.6*
Organic sales (%)[1]	*1*	*4*	*3*	*6*	*2*
Adjusted profit for the period[1]	1,971	1,776	6,643	6,897	6,467
Adjusted profit before tax[1]	2,630	2,410	10,998	9,642	8,629
Cash flow from current operations[1]	2,282	1,043	8,563	7,550	6,900
Adjusted tax[1]	–659	–634	–4,355	–2,745	–2,162

1) Non-IFRS measure, unaudited (alternative performance measure). Reconciliation tables are presented below.
2) IFRS measure, audited. The interim periods January–March 2016 and January–March 2017 are unaudited.

Key figures per segment

SEKm if not otherwise stated (unaudited unless otherwise stated)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Personal Care					
Net sales[1]	8,455	8,151	33,651	34,344	31,066
Organic sales (%)[2]	*1.1*	*6*	*3*	*7*	*n.a*
Adjusted EBITA[2] [3]	1,228	977	4,283	3,997	3,528
Adjusted EBITA margin (%)[2] [3]	*14.5*	*12.0*	*12.7*	*11.6*	*11.4*
Adjusted operating profit[2] [3]	1,224	974	4,255	3,990	3,526
Adjusted operating margin (%)[2] [3]	*14.5*	*11.9*	*12.6*	*11.6*	*11.4*
Adjusted return on capital employed (%)[2] [3]	*35.4*	*28.9*	*31.8*	*29.2*	*27.3*
Operating cash flow[2]	1,063	930	4,723	3,792	3,345
Operating cash surplus[2]	1,491	1,218	5,314	5,018	4,511
Consumer Tissue					
Net sales[1]	10,473	10,238	41,560	41,657	37,051
Organic sales (%)[2]	*0.6*	*4*	*3*	*6*	*n.a*
Adjusted EBITA[2] [3]	1,151	1,078	4,450	3,846	3,858
Adjusted EBITA margin (%)[2] [3]	*11.0*	*10.5*	*10.7*	*9.2*	*10.4*
Adjusted operating profit[2] [3]	1,149	1,061	4,382	3,773	3,798
Adjusted operating margin (%)[2] [3]	*11.0*	*10.4*	*10.5*	*9.1*	*10.3*
Adjusted return on capital employed (%)[2] [3]	*11.4*	*10.6*	*10.9*	*9.2*	*9.7*
Operating cash flow[2]	1,245	1,272	5,199	4,104	4,181
Operating cash surplus[2]	1,661	1,573	6,455	5,845	5,641
Professional Hygiene					
Net sales[1]	6,383	5,876	26,001	22,527	19,943
Organic sales (%)[2]	*2.1*	*3*	*3*	*2*	*n.a*
Adjusted EBITA[2] [3]	720	777	3,836	3,497	2,918
Adjusted EBITA margin (%)[2] [3]	*11.3*	*13.2*	*14.8*	*15.5*	*14.6*
Adjusted operating profit[2] [3]	705	765	3,773	3,444	2,854
Adjusted operating margin (%)[2] [3]	*11.0*	*13.0*	*14.5*	*15.3*	*14.3*
Adjusted return on capital employed (%)[2] [3]	*13.7*	*17.8*	*19.6*	*24.1*	*21.2*
Operating cash flow[2]	848	152	4,135	3,563	3,162
Operating cash surplus[2]	1,153	1,178	5,515	4,858	4,119

1) IFRS measure, audited. The interim periods January–March 2016 and January–March 2017 are unaudited.
2) Non-IFRS measure, unaudited (alternative performance measures). Reconciliation tables are presented below.
3) Excluding items affecting comparability.

Reconciliation of non-IFRS measures

The prospectus also presents certain performance measures that are not defined under IFRS (alternative performance measures). These measures have not been reviewed or audited by the Company's auditor. Essity believes that these measures are helpful and commonly used by certain investors, securities analysts and other interested parties as supplementary measures of performance trends and financial position. Essity's non-IFRS measures may not be comparable to other similarly titled measures presented by other companies and have certain limitations as analysis tools. Consequently, they should not be considered in isolation of or as an alternative to Essity's financial information prepared in accordance with IFRS. The tables below reflect the Company's calculation of these measures. The below tables and calculations are unaudited.

Capital employed for the Group, SEKm (unaudited)	**Mar 31, 2017**	**Mar 31, 2016**	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**
Total assets	142,813	121,009	114,284	115,351	118,465
Financial assets	–34,646	–18,313	–6,973	–18,577	–20,679
Non-current, non-interest bearing liabilities	–5,234	–4,285	–5,399	–4,788	–3,911
Current, non-interest bearing liabilities	–27,703	–23,891	–27,159	–24,653	–23,884
Capital employed	**75,230**	**74,520**	**74,753**	**67,333**	**69,991**

Adjusted return on capital employed for the Group, (%) (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
EBITA[1]	2,596	2,558	9,347	10,311	8,486
Items affecting comparability	321	186	2,645	292	1,009
Adjusted EBITA	**2,917**	**2,744**	**11,992**	**10,603**	**9,495**
Average capital employed[2]	74,992	70,926	73,145	70,115	66,866
Adjusted return on capital employed (%)	*15.6*	*15.5*	*16.4*	*15.1*	*14.2*

1) 12-month rolling EBITA and items affecting comparability are used as basis for full year calculations, and quarterly EBITA and items affecting comparability times four are used as basis for quarterly calculations.
2) Average capital employed for the five most recent quarters is used as basis for full year calculations, and average capital employed for the two most recent quarters is used as basis for quarterly calculations.

Capital employed[1] per segment, (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Personal Care	13,858	13,526	13,395	13,561	12,933
Consumer Tissue	40,490	40,517	40,648	41,689	39,059
Professional Hygiene	21,084	17,462	19,596	14,531	13,774
Other	–440	–579	–494	334	1,100
Total, Group	**74,992**	**70,926**	**73,145**	**70,115**	**66,866**

1) Average capital employed for the five most recent quarters is used as basis for full year calculations, and average capital employed for the two most recent quarters is used as basis for quarterly calculations.

Working capital for the Group, SEKm (unaudited)	**Mar 31, 2017**	**Mar 31, 2016**	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**
Inventories	11,484	11,652	10,944	11,229	10,343
Trade receivables	15,628	14,966	15,843	14,808	14,912
Other current receivables	2,382	2,279	2,390	2,266	2,305
Trade payables	–12,812	–11,261	–12,972	–11,869	–11,800
Other current liabilities	–12,205	–11,105	–11,863	–11,086	–10,438
Other[1]	–646	–156	–199	–183	–90
Working capital	**3,831**	**6,375**	**4,143**	**5,165**	**5,232**

1) Other relates mainly to exclusion of trade payables for strategic capital expenditures and acquisitions and to include current provisions that are not related to restructuring-measures.

Net debt for the Group, SEKm (unaudited)	**Mar 31, 2017**	**Mar 31, 2016**	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**
Surplus in funded pension plans	530	0	335	35	3
Non-current financial assets	620	761	717	731	2,846
Current financial assets	2,880	13,115	1,677	12,983	14,024
Cash and cash equivalents	30,616	4,437	4,244	4,828	3,806
Financial assets	**34,646**	**18,313**	**6,973**	**18,577**	**20,679**
Non-current financial liabilities	51,593	21,534	31,299	21,463	24,199
Provisions for pensions	4,622	5,173	5,273	2,919	4,958
Current financial liabilities	10,553	17,401	5,574	13,253	16,588
Financial liabilities	**66,768**	**44,108**	**42,146**	**37,635**	**45,745**
Net debt	**32,122**	**25,795**	**35,173**	**19,058**	**25,066**

Adjusted operating profit before amortization and impairment of acquisition-related intangible assets/EBITA for the Group, SEKm (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Operating profit	2,487	2,522	9,008	9,684	8,360
Amortization of acquisition-related intangible assets	21	31	159	133	126
Items affecting comparability amortization and impairment	88	5	180	494	–
EBITA	**2,596**	**2,558**	**9,347**	**10,311**	**8,486**
EBITA margin (%)	*10.3*	*10.5*	*9.2*	*10.5*	*9.6*
Items affecting comparability – cost of goods sold	212	22	532	267	441
Items affecting comparability – sales, general and administration	109	164	2,113	25	568
Adjusted EBITA	**2,917**	**2,744**	**11,992**	**10,603**	**9,495**
Adjusted EBITA margin (%)	*11.5*	*11.3*	*11.8*	*10.8*	*10.8*

Adjusted EBITA per segment, SEKm (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Personal Care	1,228	977	4,283	3,997	3,528
Consumer Tissue	1,151	1,078	4,450	3,846	3,858
Professional Hygiene	720	777	3,836	3,497	2,918
Other	–182	–88	–577	–737	–809
Total, Group	**2,917**	**2,744**	**11,992**	**10,603**	**9,495**

Adjusted gross profit for the Group, SEKm (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Gross profit	7,006	6,650	28,268	26,354	23,475
Items affecting comparability	212	22	532	267	441
Adjusted gross profit	**7,218**	**6,672**	**28,800**	**26,621**	**23,916**

Adjusted operating profit for the Group, SEKm (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Operating profit	2,487	2,522	9,008	9,684	8,360
Items affecting comparability	409	191	2,825	786	1,009
Adjusted operating profit	**2,896**	**2,713**	**11,833**	**10,470**	**9,369**
Adjusted operating margin (%)	*11.5*	*11.2*	*11.7*	*10.6*	*10.6*

Adjusted operating profit per segment, SEKm (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Personal Care	1,224	974	4,255	3,990	3,526
Consumer Tissue	1,149	1,061	4,382	3,773	3,798
Professional Hygiene	705	765	3,773	3,444	2,854
Other	–182	–87	–577	–737	–809
Total, Group[1)]	**2,896**	**2,713**	**11,833**	**10,470**	**9,369**
Financial items	–266	–303	–835	–828	–740
Adjusted profit before tax[1)]	**2,630**	**2,410**	**10,998**	**9,642**	**8,629**
Adjusted tax	–659	–634	–4,355	–2,745	–2,162
Adjusted profit for the period[2)]	**1,971**	**1,776**	**6,643**	**6,897**	**6,467**
[1)] Excluding items affecting comparability before tax amounting to:	–409	–191	–2,825	–786	–1,009
[2)] Excluding items affecting comparability after tax amounting to:	–315	–151	–2,401	–319	–786

Adjusted tax for the Group, SEKm (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Tax	–565	–594	–3,931	–2,278	–1,939
Tax related to items affecting comparability	–94	–40	–424	–467	–223
Adjusted tax	**–659**	**–634**	**–4,355**	**–2,745**	**–2,162**

Organic sales for the Group, SEKm (unaudited)	**Jan–Mar 2017**	**Jan–Mar 2016**	**Jan–Dec 2016**	**Jan–Dec 2015**	**Jan–Dec 2014**
Previous period net sales	24,248	23,754	98,519	87,997	77,927
Organic sales	246	1,001	2,718	4,923	1,463
Total organic sales for the period	**24,494**	**24,755**	**101,237**	**92,920**	**79,390**
Organic sales (%)	*1*	*4*	*3*	*6*	*2*

Change in net sales for the Group, SEKm (unaudited)	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Organic sales	246	1,001	2,718	4,923	1,463
Exchange rate effects	625	–1,062	–2,688	5,617	2,623
Acquisitions/Divestments	149	555	2,689	–18	6,002
Recognized change	**1,020**	**494**	**2,719**	**10,522**	**10,088**

Change in net sales per segment, SEKm (unaudited)	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Personal Care					
Organic sales	87	470	865	2,282	853
Exchange rate effects	217	–578	–1,313	1,015	465
Acquisitions/Divestments	0	–60	–245	–18	12
Recognized change	**304**	**–168**	**–693**	**3,279**	**1,330**
Consumer tissue					
Organic sales	60	393	1,110	2,183	189
Exchange rate effects	175	–403	–1,207	2,423	1,386
Acquisitions/Divestments	0	0	0	0	5,184
Recognized change	**235**	**–10**	**–97**	**4,606**	**6,759**
Professional Hygiene					
Organic sales	124	154	708	405	424
Exchange rate effects	234	–81	–168	2,179	769
Acquisitions/Divestments	149	615	2,934	0	806
Recognized change	**507**	**688**	**3,474**	**2,584**	**1,999**

Operating cash flow per segment, SEKm (unaudited)	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Personal Care	1,063	930	4,723	3,792	3,345
Consumer Tissue	1,245	1,272	5,199	4,104	4,181
Professional Hygiene	848	152	4,135	3,563	3,162
Other	–70	–420	–1,026	–1,019	–974
Total, Group	**3,086**	**1,934**	**13,031**	**10,440**	**9,714**

Operating cash flow (supplement) per segment, SEKm (unaudited)	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Personal Care					
Operating cash surplus	1,491	1,218	5,314	5,018	4,511
Change in working capital	–263	–115	289	–314	–96
Current capital expenditures, net	–174	–144	–805	–840	–884
Restructuring costs, etc.	9	–29	–75	–72	–186
Operating cash flow	**1,063**	**930**	**4,723**	**3,792**	**3,345**
Consumer tissue					
Operating cash surplus	1,661	1,573	6,455	5,845	5,641
Change in working capital	77	42	891	–130	195
Current capital expenditures, net	–286	–277	–1,892	–1,437	–1,197
Restructuring costs, etc.	–207	–66	–255	–174	–458
Operating cash flow	**1,245**	**1,272**	**5,199**	**4,104**	**4,181**
Professional Hygiene					
Operating cash surplus	1,153	1,178	5,515	4,858	4,119
Change in working capital	–92	–742	–30	–155	–140
Current capital expenditures, net	–105	–210	–1,267	–823	–652
Restructuring costs, etc.	–108	–74	–83	–317	–165
Operating cash flow	**848**	**152**	**4,135**	**3,563**	**3,162**

Operating cash surplus per segment, SEKm (unaudited)	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2014
Personal Care	1,491	1,218	5,314	5,018	4,511
Consumer Tissue	1,661	1,573	6,455	5,845	5,641
Professional Hygiene	1,153	1,178	5,515	4,858	4,119
Other	–159	–69	–525	–670	–750
Total, Group	**4,146**	**3,900**	**16,759**	**15,051**	**13,521**

Definitions of non-IFRS performance measures

Adjusted EBITA margin refers to operating profit before amortization of acquisition-related intangible assets/EBITA, excluding items affecting comparability, in percent of net sales. The measure is a good complement to enable margin comparisons with other companies, regardless of whether business activities were based on acquisitions or organic growth.

Adjusted gross profit refers to 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 for showing the Company's profit before the effect of costs such as selling and administrative costs.

Adjusted gross profit margin refers to adjusted gross profit as a percentage of net sales for the period. Adjusted gross profit margin is stripped of items affecting comparability and is thus a better measure than gross profit margin for showing the Company's margin before the effect of costs such as selling and administrative costs.

Adjusted operating margin refers to operating profit, excluding items affecting comparability, as a percentage of net sales for the year. Adjusted operating margin is a key measure together with sales growth and capital turnover ratio for monitoring value creation.

Adjusted operating profit is calculated as operating profit before financial items and tax and excluding items affecting comparability. Adjusted operating profit is a key measure for the Group's profit centers and provides a better understanding of the earnings performance of the business than non-adjusted operating profit.

Adjusted operating profit before amortization of acquisition-related intangible assets/EBITA is calculated as operating profit after depreciation of tangible assets but before amortization of acquisition-related intangible assets, excluding items affecting comparability. This 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.

Adjusted profit before tax is 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.

Adjusted profit for the period refers to profit for the period excluding items affecting comparability. This measure shows the period's total earnings capacity.

Adjusted return on capital employed is accumulated return on capital employed and is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/EBITA, excluding items affecting comparability, as a percentage of average capital employed for the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA, excluding items affecting comparability, for the quarter multiplied by four as a percentage of average capital employed for the two most recent quarters. Return on capital employed is the central ratio for measuring return on capital tied up in operations.

Adjusted tax is the tax expense for the period adjusted for the tax expense related to items affecting comparability. This is a useful measure showing the total tax expense for the period adjusted for taxes related to items affecting comparability.

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. Capital employed 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.

Cash flow from current operations is calculated as operating cash flow less net financial items and tax payments and taking into account other financial cash flow. This measure can be said to illustrate the cash flow generated by operations and that can potentially be used for strategic initiatives such as strategic capital expenditures or acquisitions.

Debt/equity ratio is expressed as net debt in relation to equity. This measure helps show financial risk and is the most useful measure for management to monitor the level of the Company's indebtedness.

Items affecting comparability include 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.

Net debt is 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. Net debt is the most relevant measure for showing the Company's total debt financing.

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.

Operating cash surplus is calculated as operating profit with reversal of depreciation and impairment of property, plant and equipment and intangible assets. Share of profits of associates and joint ventures, items affecting comparability and capital gains and losses are excluded. This measure shows the cash flow generated by profit and is part of the follow-up of cash flow.

Operating profit before amortization of acquisition-related intangible assets/EBITA is calculated as operating profit after depreciation of tangible assets but before amortization of acquisition-related intangible assets. This measure is a good complement to enable earnings comparisons with other companies, regardless of whether business activities were based on acquisitions or organic growth.

Organic sales is sales excluding exchange rate effects, acquisitions and divestments. Organic sales 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.

Return on capital employed, ROCE is accumulated return on capital employed and is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets/EBITA, as a percentage of average capital employed for 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 average capital employed for the two most recent quarters. Return on capital employed is the central ratio for measuring return on capital tied up in operations.

Strategic capital expenditures in non-current assets increase the Company's future cash flow through capital expenditures to expand facilities, or new technologies that boost competitiveness. This measure shows that size of the capital expenditures that are made in expansion and other growth measures.

Working capital is calculated as current operating receivables less current operating liabilities. Working capital 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.

Operational and financial review

This operational and financial review is intended to facilitate the understanding and assessment of trends and changes in the Company's earnings and financial position. The information below should be read together with the section entitled "Selected historical financial information" and the Financial Statements prepared in accordance with IFRS as adopted by the European Union and presented elsewhere in this prospectus. For information about the Company's accounting principles, refer to the accounting principles on p. F-24 and F-38 and onwards in the section entitled "Historical financial information".

Historical earnings do not necessarily provide a correct indication of future earnings. This section contains forward-looking information. Such information is based on estimates and assumptions and is subject to risks, uncertainties and other factors, including, without limitation, those stated in the section entitled "Risk factors". These factors could cause the Company's future operating profit, financial position or cash flow to deviate significantly from the information stated or indicated in such forward-looking statements.

Factors affecting Essity's results of operations

Essity's results have been, and will likely continue to be, affected by a number of factors, some of which are beyond Essity's control. Presented below is a description of the key factors that Essity considers to have affected the results of operations during the periods addressed in this section and which can be expected to continue to affect Essity's results in the future:

- Demand, market conditions and market penetration;
- Market positions and brands;
- Sales volume, price and mix;
- Cost for raw materials;
- Energy costs;
- Efficiency and cost control;
- Currency effects;
- Financing costs;
- Acquisitions;
- Divestments; and
- Essity as an independent company.

Demand, market conditions and market penetration

Essity's earnings and cash flow depend on the demand for the Company's products and services. Demand is driven by the development and penetration of the global hygiene and health markets, which are influenced by demographic trends, such as population growth, population aging, continued urbanization and increased prevalence of chronic medical conditions, as well as macroeconomic drivers such as increases in disposable income and standard of living. In addition, the development and penetration of global health and hygiene markets are affected by increased awareness of the importance of hygiene to improve health and prevent diseases, as well as global consumer preference trends in hygiene and health.

Certain underlying macroeconomic drivers, such as increases in disposable income have a larger impact on the demand for Essity's products in emerging markets, compared to mature markets. Increases in disposable income allow people to satisfy their basic food and housing needs and lead to more people prioritizing hygiene and products of the type Essity offers. In mature markets, growth in demand for Essity's products is driven by lifestyle changes and innovations that lead to increased use of hygiene and health products. For additional information on the effects of demographic trends on Essity's business, macroeconomic drivers and consumer preference trends in health and hygiene, see "*Market trends and drivers*" in the section entitled "*Market and business description*".

The Company conducts sales in about 150 countries and markets its products to different target groups. Essity is therefore not significantly dependent on any particular country, region or target group.

Market positions and brands

Leading market positions and strong brands are central to Essity's sales and continued profitability. The Company aims to hold a number one or number two position in the markets and product categories in which it chooses to operate. As part of the Company's strategy, Essity strives to grow profitable market positions, improve or exit under-performing positions and broaden its product offerings, including offering integrated solutions and services.

Sales volume, price and mix

Essity's net sales depend largely on sales volume, which is driven by market demand and Essity's ability to offer competitive products. Fluctuations in the market prices of Essity's products have a significant impact on the Company's earnings and cash flow. Essity has developed a deep understanding of its customers' needs and periodically monitors global trends in customer behavior in order to ensure that it develops products that meet customers' expectations in terms of price and value. In addition, the Company employs an international sales force that continuously interacts with, and solicits feedback from, key stakeholders and customers.

To mitigate the possible impact of fluctuations in the market prices of its product, Essity aims to adapt its cost structure to lower market prices, for example, by seeking to renegotiate purchasing agreements, implementing personnel and capacity reductions and reviewing the Company's business structure. In certain cases, Essity aims to adapt its product offerings by adjusting costs of production in order to reflect the market price of those products. In addition, changes to the mix of product offerings and geographical distribution also affect the Company's earnings and cash flow.

Cost for raw materials

The costs associated with the purchase of raw materials and consumable inputs used in Essity's manufacturing process constitute the largest component of the Company's production cost, amounting to 41% of total operating expenses for 2016. Of the raw materials and consumable inputs purchased by Essity, pulp is the most significant, along with recovered paper, super absorbents, non-woven, chemicals, plastics and packaging materials. The raw materials and consumable inputs are purchased from a large number of suppliers, and no single supplier represent a significant part of Essity's costs.

Fluctuations in the market prices of these raw materials and inputs, including pulp and recovered paper, could have a major impact on the Company's earnings and cash flow. Essity aims to mitigate the risks related to fluctuations in the costs of raw materials and inputs by making corresponding adjustments to its product prices, the content of its product offerings and streamlining the Company's operations, whenever possible. Essity does not generally hedge its exposure to fluctuations in the prices of raw materials and inputs.

Energy costs

Essity's manufacturing process is energy-intensive. In 2016, the Company purchased approximately 5 TWh of electricity and approximately 8 TWh of natural gas, which amounted to approximately 5% of total operating expenses for 2016. Fluctuations in the prices of energy commodities such as electricity and natural gas could have a direct and indirect impact on the Company's earnings and cash flow. Essity aims to mitigate the risks related to fluctuations in the prices of electricity and natural gas in unregulated markets by entering into hedging transactions for a period of up to 36 months. Energy price hedging is effected through derivative financial instruments and fixed pricing in existing supply agreements. The Company safeguards the supply of electricity and natural gas through centrally negotiated supply agreements.

Efficiency and cost controls

Essity's ability to maintain operational efficiency and cost controls affects the Company's earnings and cash flow. Essity's operational efficiency is determined by its production processes, sourcing and logistics infrastructure, ability to generate cost synergies, efficient resource allocation as well as innovation and brand activities. Establishing the adequate structures to enhance operational efficiency along the entire value chain is a key part of Essity's strategy. By implementing this strategy, the Company aims to improve its competitiveness, lower its costs and improve its earnings, while decreasing the environmental impact of its operations.

Essity has implemented several important initiatives to improve its operational efficiency. In 2016 Essity launched "Tissue Roadmap", a ten-year plan to improve production efficiency in order to improve cost and capital efficiency and further increase the value-creation potential in the Company's Business Areas Consumer Tissue and Professional Hygiene. As part of the plan, Essity closed a production facility in Spain and implemented restructuring measures in France.

Cost of goods sold significantly impact Essity's gross profit. Essity is implementing efficiency and cost saving initiatives in all stages of the value chain in an attempt to improve its gross margins (total sales revenue minus costs of goods sold, divided by total sales). The expenses associated with the purchase of raw materials and consumable inputs used in the manufacturing of Essity's products constitute the largest part of cost of goods sold. Essity has been able to realize significant savings by increasing the efficiency with which it uses raw materials and inputs, reducing the waste generated during production and the substitution of new materials and inputs with lower costs.

Currency effects

Currency exchange fluctuations may expose Essity to transaction risk and translation risk, which could potentially affect the Company's financial statements. Transaction risk stems from export revenues and import expenses due to currency exchange fluctuations, which could negatively impact Essity's operating profit and the cost of non-current assets. Translation risk stems from the possible negative impact of currency exchange fluctuations on the conversion of Essity subsidiaries' foreign-currency denominated balance sheets and income statements to SEK. Essity's global operations involve significant transactions in foreign currency. In 2016, 38% of net sales were generated in EUR, 17% in USD, 10% in CNY and 8% in GBP. For expenses, 39% were generated in EUR, 29% in USD, 6% in CNY and 4% in GBP. In 2016, the SEK was generally weaker against the Company's main operating currencies compared to 2015.

Essity is able to hedge transaction risk resulting from exports and imports for a period of up to 18 months, while the Company is able to hedge transaction risk from future foreign-currency payments for non-current assets up to the full cost. Essity's policy to mitigate translation risk related to foreign net assets is to hedge a sufficient proportion of such assets in relation to SEK to ensure that the Company's debt/equity ratio is unaffected by currency exchange fluctuations. The Company enters into such translation risk hedges by financing a certain portion of capital employed in foreign currencies with loans and derivatives in corresponding currencies. The optimal degree of matching in connection with hedging depends on the current consolidated debt/equity ratio. Essity does not hedge translation risk in the income statements of foreign subsidiaries.

See "*Financial exposure and risk management*" and note E8 on p. F-69 in the section entitled "*Historical financial information*", for a description of the Group's exposure to and management of currency risks.

Throughout this document, "organic" figures refer to figures that exclude the effects of exchange rates, acquisitions and divestments, and "adjusted" figures refers to figures that exclude items affecting comparability, as described further below.

Financing costs

Essity's earnings and cash flow are affected by financing costs, especially interest expense. Interest expense is primarily affected by the amount of the Company's interest-bearing liabilities, the general level of interest rates and foreign exchange fluctuations affecting the currency denominations of the Company's liabilities. Essity seeks to diversify the maturity profile of its liabilities to avoid the need to refinance large amounts concurrently. Essity's policy is to enter into floating-rate commercial financing agreements, since in the Company's opinion, this leads to lower interest expense over time. The interest rate risk and interest term period are measured by currency and the average interest term shall be within the interval 3–36 months.[1] When Essity was part of the SCA Group, SCA routinely entered into commercial financing agreements denominated in various currencies, and Essity expects to continue doing so as a standalone entity. As of December 31, 2016, Essity's largest exposure was to SEK, USD and CNY denominated liabilities, which accounted for 45%, 16% and 14% of Essity's outstanding liabilities, respectively. Further, Essity periodically enters into financial derivative agreements in order to achieve the desired interest term maturity profile and foreign currency liability exposure.

See "*Financial exposure and risk management*" and note E8 on p. F-69 in the section entitled "*Historical financial information*", for a description of the Group's exposure to and management of financing costs.

Acquisitions

The Company continuously works to identify and evaluate new investment opportunities. Essity's acquisition strategy aims to strengthen the Company's market position and/or complement the Company's portfolio of product offerings. Essity has previously executed a number of acquisitions of various targets ranging in size and has developed a structured process to identify desirable targets, conduct negotiations and integrate new assets into its business. See "*Acquisitions and divestments*" below for a description of certain acquisitions made by the Group.

Divestments

Essity's strategy is to secure a leading position in each of the markets and product categories where it operates. Essity is continually evaluating its holdings to identify under-performing businesses that may be subject for divestment. See "*Acquisitions and divestments*" below for a description of certain divestments made by the Group.

Essity as an independent company

Essity's portion of the total costs for the conceived split of the SCA Group are estimated to be approximately SEK 820m, including project and listing costs of approximately SEK 90m, one-time foreign tax on non-current assets outside Sweden of approximately SEK 450m, and brand-related costs of approximately SEK 280m. The transaction costs have affected and will affect Essity's financial results for both 2016 and 2017. Of the total costs, approximately SEK 80m are expected to affect financial items and approximately SEK 740m are expected to affect items affecting comparability. Of the total costs, SEK 74m affected the fourth quarter of 2016, of which SEK 68m affected financial items and SEK 6m affected items affecting comparability. Essity previously shared certain corporate functions with the SCA Group, which it will no longer share after the split. As a result, Essity is likely to incur increased administrative costs as compared to costs previously accounted for in the Group's financial statements.

Business Areas

Essity divides and reports its results of operations according to three segments corresponding to the three Business Areas – Personal Care, Consumer Tissue and Professional Hygiene – each with a clear profit responsibility. On April 3, 2017 Essity closed the acquisition of BSN medical. BSN medical will be included in the Business Area Personal Care and consolidated in the Group's financial statements starting on April 3, 2017 and onwards. For further information on Business Areas, see "*Business Areas*" in the section entitled "*Market and business description*".

Key items in the income statement

Net sales

Net sales refer to the consideration received or receivable for goods and services sold within Essity's ordinary activities and primarily comprises sales of hygiene and health products. Sales are recognized at the time products are delivered to the customer according to the terms of the sale. Billed sales for products not yet delivered are recognized as deferred revenue.

Cost of goods sold

Cost of goods sold consist primarily of expenses related to raw materials and consumable inputs, energy, labor costs associated with production, depreciation of tangible assets, changes in inventory of finished products and products in progress and other operating expenses.

Selling, general and administration expenses

Selling, general and administration expenses refer to expenses related to marketing and selling, as well as management compensation and central functions.

Share of profits of associates and joint ventures

Essity's share of profits from the Company's associates and joint ventures consolidated according to the equity method are recognized as "Share of profits of associates and joint ventures" in the income statement.

Financial items

Financial items consist of financial income and financial expenses. Financial items includes results from shares and participations in other companies, interest income, interest expenses from borrowing and derivatives, unrealized fair value hedges and other financial expenses.

Taxes

Essity's tax expenses consist of current tax and deferred tax. Current tax is calculated on the taxable result for the period based on the tax rules prevailing in the jurisdictions where Essity operates. Current tax also includes adjustments relating to recognized current tax from prior periods. 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, insofar as it is probable that these can be utilized against future taxable profits.

Comparison between the period January–March 2017 and January–March 2016

Net sales

Net sales for the first quarter of 2017 amounted to SEK 25,268m, compared to SEK 24,248m in the first quarter of 2016, which represented an increase of SEK 1,020m or 4% over the first quarter of 2016. Exchange rate effects increased net sales by 2.6%. The acquisition of Wausau increased net sales by 0.6%. Organic sales increased by 1.0% over the first quarter of 2016, of which volume accounted for 0.7% and price/mix for 0.3%. The increase in organic sales was driven primarily by a 5.2% increase in emerging markets, which was partially offset by a 0.9% decrease in mature markets.

Personal Care

Net sales for Personal Care for the first quarter of 2017 amounted to SEK 8,455m, compared to SEK 8,151m in the first quarter of 2016, which represented an increase of SEK 304m or 4% over the first

[1] As a result of the acquisition of BSN medical, which increased the Group's indebtedness, Essity resolved in December 2016 to deviate from the Group's financial policy with respect to interest term and currency, enabling the Company to issue EMTN bonds totalling EUR 2,000m in four tranches in the European bond market, with an average maturity of 6.3 years. The bonds were issued in March 2017, and were retained under this exception to fixed rate, as part of long-term financing of BSN medical.

quarter of 2016. Exchange rate effects increased net sales by 2.7%. Organic sales increased by 1.1% over the first quarter of 2016, of which volume accounted for 0.4% and price/mix for 0.7%. This increase was driven primarily by emerging markets, which accounted for 42% of net sales, where organic sales increased by 3.1%. The increase was partially offset by a 0.3% decrease in organic sales in mature markets. The discontinuations of the Baby Care business in Mexico and the hygiene business in India together affected the organic sales negatively by approximately 1%.

Consumer Tissue

Net sales for Consumer Tissue for the first quarter of 2017 amounted to SEK 10,473m, compared to SEK 10,238m in the first quarter of 2016, which represented an increase of SEK 235m or 2% over the first quarter of 2016. Exchange rate effects increased net sales by 1.7%. Organic sales increased by 0.6% over the first quarter of 2016, of which volume accounted for 0.9% and price/mix for –0.3%. This increase was primarily driven by growth in emerging markets, which accounted for 44% of net sales, where organic sales increased by 5.2%, attributable to Asia, Latin America and Russia. The increase was partially offset by a 1.6% decrease in mature markets, primarily related to lower sales of products under retailers' own brands and lower sales of mother reels.

Professional Hygiene

Net sales for Professional Hygiene for the first quarter of 2017 amounted to SEK 6,383m, compared to SEK 5,876m in the first quarter of 2016, which represented an increase of SEK 507m or 9% over the first quarter of 2016. The acquisition of Wausau increased net sales by 2.5% and exchange rate effects increased net sales by 4.0%. Organic sales increased by 2.1% over the first quarter of 2016, of which volume accounted for 1.2% and price/mix for 0.9%. Organic sales in mature markets were in line with the previous year, as increased sales in Western Europe compensated for lower sales in North America. In emerging markets, which accounted for 17% of the net sales, organic sales increased by 1.2%, primarily attributable to Asia and Latin America.

Cost of goods sold

Cost of goods sold for the first quarter of 2017 amounted to SEK 18,262m, compared to SEK 17,598m in the first quarter of 2016, which represented an increase of SEK 664m or 4% over the first quarter of 2016. In the first quarter of 2017, the Company recognized adjustments to items affecting comparability to cost of goods sold of SEK 212m, compared to SEK 22m in the first quarter of 2016, which represented an increase of SEK 190m or 864% over the first quarter of 2016. The increase in cost of goods sold was primarily driven by translation exchange rate effects, higher sales volumes, the acquisition of Wausau and higher costs of energy and raw material. The increased costs of raw material were primarily a result of higher recovered paper prices. Cost savings partially offset the increase in cost of goods sold.

Gross profit

Gross profit for the first quarter of 2017 amounted to SEK 7,006m, compared to SEK 6,650m in the first quarter of 2016, which represented an increase of SEK 356m or 5% over the first quarter of 2016. Adjusted gross profit for the first quarter of 2017 amounted to SEK 7,218m, compared to SEK 6,672m in the first quarter of 2016, which represented an increase of SEK 546m or 8% over the first quarter of 2016. The increase in adjusted gross profit was primarily driven by higher sales volume, better price/mix, the acquisition of Wausau, cost savings and translation exchange rate effects, which were partially offset by higher energy and raw material costs.

Sales, general and administration expenses

Sales, general and administration expenses for the first quarter of 2017 amounted to SEK 4,439m, compared to SEK 4,124m in the first quarter of 2016, which represented an increase of SEK 315m or 8% over the first quarter of 2016. In the first quarter of 2017, the Company recognized adjustments to items affecting comparability to sales, general and administration expenses of SEK 109m, compared to SEK 164m in the first quarter of 2016, which represented a decrease of SEK 55m or 34% over the first quarter of 2016. The increase in sales, general and administration expenses was primarily driven by translation exchange rate effects and increased investments in marketing activities, in particular within Personal Care.

Share of profits of associates and joint ventures

Share of profits of associates and joint ventures for the first quarter of 2017 amounted to SEK 29m, compared to SEK 32m in the first quarter of 2016, which represented a decrease of SEK 3m or 9% over the first quarter of 2016. The decrease in share of profits of associates and joint ventures was primarily driven by a decrease in profits from Asaleo Care.

EBITA and Operating profit

EBITA for the first quarter of 2017 amounted to SEK 2,596m, compared to SEK 2,558m for the first quarter of 2016, which represented an increase of SEK 38m or 1% over the first quarter of 2016. Adjusted EBITA for the first quarter of 2017 amounted to SEK 2,917m, compared to SEK 2,744m in the first quarter of 2016, which represented an increase of SEK 173m or 6% over the first quarter of 2016. Operating profit for the first quarter of 2017 amounted to SEK 2,487m, compared to SEK 2,522m in the first quarter of 2016, which represented a decrease of SEK 35m or 1% over the first quarter of 2016. Adjusted operating profit for the first quarter of 2017 amounted to SEK 2,896m, compared to SEK 2,713m in the first quarter of 2016, which represented an increase of SEK 183m or 7% over the first quarter of 2016. The increase in adjusted EBITA was primarily related to higher volumes, a better price/mix, cost savings, the acquisition of Wausau and the discontinuations of the Baby Care business in Mexico and the hygiene business in India. Translation exchange rate effects increased adjusted EBITA by 2%.

Personal Care

Adjusted EBITA for the first quarter of 2017 amounted to SEK 1,228m, compared to SEK 977m in the first quarter of 2016, which represented an increase of SEK 251m or 26% over the first quarter of 2016. Adjusted operating profit for the first quarter of 2017 amounted to SEK 1,224m, compared to SEK 974m in the first quarter of 2016, which represented an increase of SEK 250m or 26% over the first quarter of 2016. The increase in adjusted EBITA was positively affected by a better price/mix, higher volumes, lower raw material costs, cost savings, higher profitability for Incontinence Products in North America and the discontinuations of the Baby Care business in Mexico and the hygiene business in India. Investments in increased marketing activities were conducted. Translation exchange rate effects increased adjusted EBITA by 2%.

Consumer Tissue

Adjusted EBITA for the first quarter of 2017 amounted to SEK 1,151m, compared to SEK 1,078m in the first quarter of 2016, which represented an increase of SEK 73m or 7% over the first quarter of 2016. Adjusted operating profit for the first quarter of 2017 amounted to SEK 1,149m, compared to SEK 1,061m in the first quarter of 2016, which represented an increase of SEK 88m or 8% over the first quarter of 2016. The increase in adjusted EBITA was primarily driven by higher volumes, cost savings and lower raw material costs. Lower prices and higher energy costs affected adjusted EBITA negatively. Translation exchange rate effects increased adjusted EBITA by 3%.

Professional Hygiene
Adjusted EBITA for the first quarter of 2017 amounted to SEK 720m, compared to SEK 777m in the first quarter of 2016, which represented a decrease of SEK 57m or 7% over the first quarter of 2016. Adjusted operating profit for the first quarter of 2017 amounted to SEK 705m, compared to SEK 765m in the first quarter of 2016, which represented a decrease of SEK 60m or 8% over first quarter of 2016. The decrease in adjusted EBITA was primarily driven by higher raw material costs mainly resulting from significantly higher recovered paper prices. Higher selling costs had a negative earnings effect. A better price/mix, higher volumes, cost savings and the acquisition of Wausau increased adjusted EBITA. Translation exchange rate effects decreased adjusted EBITA by 7%.

Financial items
Financial income for the first quarter of 2017 amounted to SEK 48m, compared to SEK 17m in the first quarter of 2016, which represented an increase of SEK 31m or 182% over the first quarter of 2016. Financial expenses for the first quarter of 2017 amounted to SEK 314m, compared to SEK 320m in the first quarter of 2016, which represented a decrease of SEK 6m or 2% over the first quarter of 2016. Net financial expenses for the first quarter of 2017 amounted to SEK 266m, compared to SEK 303m in the first quarter of 2016, which represented a decrease of SEK 37m or 12% over the first quarter of 2016. The decrease in net financial expenses was primarily driven by a lower average net debt.

Profit before tax
Profit before tax for the first quarter of 2017 amounted to SEK 2,221m, compared to SEK 2,219m in the first quarter of 2016, which represented an increase of SEK 2m or 0.1% over the first quarter of 2016. Adjusted profit before tax for the first quarter of 2017 amounted to SEK 2,630m, compared to SEK 2,410m in the first quarter of 2016, which represented an increase of SEK 220m or 9% over the first quarter of 2016. The increase in adjusted profit before tax was primarily driven by a higher adjusted EBITA and lower financial items.

Tax
Tax expense for the first quarter of 2017 amounted to SEK 565m, compared to SEK 594m in the first quarter of 2016, which represented a decrease of SEK 29m or 5% over the first quarter of 2016. The tax expense for the first quarter of 2017 corresponds to an effective tax rate of 25.4%, compared to 26.8% in the first quarter of 2016. Adjusted tax expense for the first quarter of 2017 amounted to SEK 659m, compared to SEK 634m in the first quarter of 2016, which represented an increase of SEK 25m or 4% over the first quarter of 2016.

Items Affecting Comparability
The costs attributable to items affecting comparability for the first quarter of 2017 amounted to SEK 409m, compared to SEK 191m in the first quarter of 2016, which represented an increase of SEK 218m or 114% over the first quarter of 2016. In the first quarter of 2017, items affecting comparability include costs of approximately SEK 460m attributable to the split of the SCA Group into two listed companies, the largest component of which is a one-time foreign tax on non-current assets outside Sweden. Items affecting comparability for the first quarter of 2017 also include integration costs related to the acquisition of Wausau of approximately SEK 30m, restructuring costs of SEK 80m related to the closure of a tissue machine in UK and other costs of SEK 104m. The derecognition of a provision related to an antitrust case in Poland had a positive effect of approximately SEK 265m.

Items affecting comparability for the first quarter of 2016 primarily consisted of re-measurement effects concerning Wausau's inventory valuation in connection with the acquisition balance and transaction costs, as well as a provision of approximately SEK 100m related to the ongoing review of the Colombian competition authority of the jointly owned company Productos Familia S.A., Colombia.

Profit for the period
Profit for the first quarter of 2017 amounted to SEK 1,656m, compared to SEK 1,625m in the first quarter of 2016, which represented an increase of SEK 31m or 2% over the first quarter of 2016. Adjusted profit for the first quarter of 2017 amounted to SEK 1,971m, compared to SEK 1,776m in the first quarter of 2016, which represented an increase of SEK 195m or 11% over the first quarter of 2016. The increase in profit for the period was primarily driven by a higher gross profit, while sales, general and administration expenses had a negative impact on the profit for the period.

Comparison between the financial years 2016 and 2015

Net sales
Net sales for 2016 amounted to SEK 101,238m, compared to SEK 98,519m in 2015, which represented an increase of SEK 2,719m or 3% over 2015. Exchange rate effects decreased net sales by 3%. The acquisition of Wausau increased net sales by 3%. Organic sales increased by 3% over 2015, of which volume accounted for 2% and price/mix for 1%. The increase in organic sales was primarily driven by emerging markets, especially consumer tissue in China. Emerging markets showed an increase of 7% while mature markets were in line with the previous year.

Personal Care
Net sales for Personal Care for 2016 amounted to SEK 33,651m, compared to SEK 34,344m in 2015, which represented a decrease of SEK 693m or 2% over 2015. Exchange rate effects decreased net sales by 4%. The effects of the divestment of the baby diaper business in South Africa decreased net sales by 1%. Organic sales increased by 3% over 2015, of which volume accounted for 2% and price/mix for 1%. The increase in organic sales was primarily driven by higher sales of feminine care products especially in Latin America and Western Europe. Emerging markets and mature markets showed an increase in the organic sales of 3% and 2% respectively.

Consumer Tissue
Net sales for Consumer Tissue for 2016 amounted to SEK 41,560m, compared to SEK 41,657m in 2015, which represented a decrease of SEK 97m or less than 1% over 2015. Exchange rate effects decreased net sales by 3%. Organic sales increased by 3% over 2015, of which volume accounted for 1% and price/mix for 2%. The increase in organic sales was related to emerging markets, especially China. Emerging markets showed an increase of 9% while mature markets showed a decrease of 2% compared to the previous year.

Professional Hygiene
Net sales for Professional Hygiene for 2016 amounted to SEK 26,001m, compared to SEK 22,527m in 2015, which represented an increase of SEK 3,474m or 15% over 2015. Exchange rate effects decreased net sales by 1%. The effects of the acquisition of Wausau increased net sales by 13%. Organic sales increased by 3% over 2015, of which volume accounted for 3% while price/mix remained stable compared to the previous year. The increase in organic sales was primarily related to emerging markets, especially China, Latin America and Russia. Emerging markets showed an increase of 12%, mature markets showed an increase of 1% compared to the previous year.

Cost of goods sold
Cost of goods sold for 2016 amounted to SEK 72,970m, compared to SEK 72,165m in 2015, which represented an increase of SEK 805m or 1% over 2015. In 2016, the Company recognized adjustments for items affecting comparability to cost of goods sold of SEK 532m, compared to SEK 267m in 2015, which represented an increase of SEK 265m or 99% over 2015. The increase in costs of goods sold was primarily driven by higher sales volumes and the Wausau acquisition, which

was partially offset by cost savings, lower energy costs and lower raw material costs primarily driven by lower pulp prices. Translation exchange rate effects had a positive impact on cost of goods sold.

Gross profit
Gross profit for 2016 amounted to SEK 28,268m, compared to SEK 26,354m in 2015, which represented an increase of SEK 1,914m or 7% over 2015. The adjusted gross profit for 2016 amounted to SEK 28,800m, compared to SEK 26,621m in 2015, which represented an increase of SEK 2,179m or 8% over 2015. The increase in adjusted gross profit was primarily driven by higher sales volumes, a better price/mix, acquisition of Wausau, cost savings, lower energy costs and lower raw material costs primarily driven by lower pulp prices. Translation exchange rate effects had a negative impact on gross profit.

Sales, general and administration expenses
Sales, general and administration expenses for 2016 amounted to SEK 19,078m, compared to SEK 16,241m in 2015, which represented an increase of SEK 2,837m or 17% over 2015. In 2016, the Company recognized adjustments to items affecting comparability to sales, general and administration expenses of SEK 2,113m, compared to SEK 995m in 2015, which represented an increase of SEK 1,118m or 112% over 2015. The increase in sales, general and administration expenses was primarily driven by increased investments in marketing activities, especially in Personal Care. Translation exchange rate effects had a positive effect on sales, general and administration expenses.

Share of profits of associates and joint ventures
Share of profits of associates and joint ventures for 2016 amounted to SEK 157m, compared to SEK 198m in 2015, which represented a decrease of SEK 41m or 21% over 2015. The decrease was primarily related to lower profits from Asaleo Care.

EBITA and Operating profit
EBITA for 2016 amounted to SEK 9,347m, compared to SEK 10,311m in 2015, which represented a decrease of SEK 964m or 9% over 2015. Adjusted EBITA for 2016 amounted to SEK 11,992m, compared to SEK 10,603m in 2015, which represented an increase of SEK 1,389m or 13% over 2015. Operating profit for 2016 amounted to SEK 9,008m, compared to SEK 9,684m in 2015, which represented a decrease of SEK 676m or 7% over 2015. Adjusted operating profit for 2016 amounted to SEK 11,833m, compared to SEK 10,470m in 2015, which represented an increase of SEK 1,363m or 13% over 2015. The increase in adjusted EBITA was primarily related to higher volumes, a better price/mix, cost savings, lower raw material and energy costs and acquisition. The British pound and Mexican peso was weakened against a number of trading currencies, which had a negative impact on earnings. Translation exchange rate effects decreased adjusted EBITA by 4%.

Personal Care
Adjusted EBITA for 2016 amounted to SEK 4,283m, compared to SEK 3,997m in 2015, which represented an increase of SEK 286m or 7% over 2015. Adjusted operating profit for 2016 amounted to SEK 4,255m, compared to SEK 3,990m in 2015, which represented an increase of SEK 265m or 7% over 2015. The increase in adjusted EBITA was primarily driven by a better price/mix, higher volumes and cost savings, which were partially offset by higher costs for raw material, higher selling costs and increased investments in marketing activities. The British pound and Mexican peso weakened against a number of trading currencies, which had a negative earnings effect. Translation exchange rate effects decreased adjusted EBITA by 4%.

Consumer Tissue
Adjusted EBITA for 2016 amounted to SEK 4,450m, compared to SEK 3,846m in 2015, which represented an increase of SEK 604m or 16% over 2015. Adjusted operating profit for 2016 amounted to SEK 4,382m, compared to SEK 3,773m in 2015, which represented an increase of SEK 609m or 16% over 2015. The increase in adjusted EBITA was primarily driven by a better price/mix, higher volumes, cost savings, lower raw material and energy costs, which were partially offset by higher selling costs and investments in increased marketing activities. The British pound and Mexican peso weakened against several trading currencies, which had a negative earnings effect. Translation exchange rate effects decreased adjusted EBITA by 5%.

Professional Hygiene
Adjusted EBITA for 2016 amounted to SEK 3,836m, compared to SEK 3,497m in 2015, which represented an increase of SEK 339m or 10% over 2015. Adjusted operating profit for 2016 amounted to SEK 3,773m, compared to SEK 3,444m in 2015, which represented an increase of SEK 329m or 10% over 2015. The increase in adjusted EBITA was primarily driven by acquisitions, higher volumes, lower raw material and energy costs, which were partially offset by higher selling costs. The British pound and Mexican peso weakened against several trading currencies, which had a negative earnings effect. Translation exchange rate effects decreased adjusted EBITA by 1%.

Financial items
Financial income for 2016 amounted to SEK 202m, compared to SEK 312m in 2015, which represented a decrease of SEK 110m or 35% over 2015. Financial expenses for 2016 amounted to SEK 1,037m, compared to SEK 1,140m in 2015, which represented a decrease of SEK 103m or 9% over 2015. Net financial items for 2016 amounted to expenses of SEK 835m, compared to expenses of SEK 828m in 2015, which represented an increase of SEK 7m or 1% over 2015. The increase in net financial items was primarily driven by a higher average net debt, which was impacted by the Wausau acquisition.

Profit before tax
Profit before tax for 2016 amounted to SEK 8,173m, compared to SEK 8,856m in 2015, which represented a decrease of SEK 683m or 8% over 2015. Adjusted profit before tax in 2016 amounted to SEK 10,998m, compared to SEK 9,642m in 2015, which represented an increase of SEK 1,356m or 14% over 2015. The increase in adjusted profit before tax was primarily driven by increased adjusted EBITA.

Tax
Tax expense for 2016 amounted to SEK 3,931m, compared to SEK 2,278m in 2015, which represented an increase of SEK 1,653m or 73% over 2015. The tax expense for 2016 corresponds to an effective tax rate of 48%, compared to 26% in 2015. Adjusted tax expense for 2016 amounted to SEK 4,355m, compared to SEK 2,745m for 2015, which represented an increase of SEK 1,610m or 59% over 2015. The tax expense for 2016 includes a provision of approximately SEK 1,300m among others related to ongoing tax cases in Sweden and Austria. The tax rate excluding items affecting comparability and excluding the tax provision of approximately SEK 1,300m amounted to 27%.

Items Affecting Comparability
Expenses related to items affecting comparability for 2016 amounted to SEK 2,825m, compared to SEK 786m in 2015, which represented an increase of SEK 2,039m or 259% over 2015. In 2016, items affecting comparability include: costs of SEK 1,086m related to ongoing antitrust cases in Chile, Colombia, Poland, Spain and Hungary; restructuring costs of SEK 757m mainly related to the closures of the tissue plants in Sant Joan de Mediona, Spain, and Saint-Cyr-en-Val, France, and restructuring measures at the

Hondouville and Saint-Etienne-du-Rouvray production plants in France; costs of SEK 174m for the closure of the Baby Care business in Mexico; costs of SEK 374m for the discontinuation of the hygiene business in India; integration costs related to the acquisition of Wausau and inventory valuation in connection with the acquisition balance, together totaling SEK 204m; transaction costs of SEK 143m for BSN medical; other costs of approximately SEK 186m and a capital gain of SEK 99m attributable to the divestment of Essity's shareholding in IL Recycling.

Profit for the period

Profit for the period in 2016 amounted to SEK 4,242m, compared to SEK 6,578m in 2015, which represented a decrease of SEK 2,336m or 36% over 2015. Adjusted profit for the period in 2016 amounted to SEK 6,643m, compared to SEK 6,897m in 2015, which represented a decrease of SEK 254m or 4% over 2015. The decrease in profit for the period was primarily driven by higher tax expense and higher items affecting comparability.

Comparison between the financial years 2015 and 2014

Net sales

Net sales for 2015 amounted to SEK 98,519m, compared to SEK 87,997m in 2014, which represented an increase of SEK 10,522m or 12% over 2014. Exchange rate effects increased net sales by 6%. Organic sales increased by 6% over 2014, of which volume accounted for 3% and price/mix for 3%. The increase in organic sales was primarily driven by emerging markets, especially consumer tissue in China. Emerging markets showed an increase of 12% while mature markets showed an increase of 2%.

Personal Care

Net sales for Personal Care for 2015 amounted to SEK 34,344m, compared to SEK 31,066m in 2014, which represented an increase of SEK 3,278m or 11% over 2014. Exchange rate effects increased net sales by 4%. Organic sales increased by 7% over 2014, of which volume accounted for 4% and price/mix for 3%. The increase in organic sales was primarily driven by emerging markets, especially feminine care and incontinence products in Latin America and Russia. Emerging markets and mature markets showed an increase in the organic sales of 12% and 4% respectively.

Consumer Tissue

Net sales for Consumer Tissue for 2015 amounted to SEK 41,657m, compared to SEK 37,051m in 2014, which represented an increase of SEK 4,606m or 12% over 2014. Exchange rate effects increased net sales by 6%. Organic sales increased by 6% over 2014, of which volume accounted for 4% and price/mix for 2%. The increase in organic sales was primarily driven by emerging markets, especially China. Emerging markets and mature markets showed an increase in the organic sales of 14% and 1% respectively.

Professional Hygiene

Net sales for Professional Hygiene for 2015 amounted to SEK 22,527m, compared to SEK 19,943m in 2014, which represented an increase of SEK 2,584m or 13% over 2014. Exchange rate effects increased net sales by 11%. Organic sales increased by 2% over 2014, of which volume accounted for 1% and price/mix for 1%. The increase in organic sales was primarily driven by higher sales in emerging markets and North America. Emerging markets and mature markets showed an increase in the organic sales of 8% and 1% respectively.

Cost of goods sold

Cost of goods sold for 2015 amounted to SEK 72,165m, compared to SEK 64,522m in 2014, which represented an increase of SEK 7,643m or 12% over 2014. In 2015, the Company recognized adjustments for items affecting comparability to cost of goods sold of SEK 267m, compared to SEK 441m in 2014, which represented a decrease of SEK 174m or 39% over 2014. The increase in costs of goods sold was primarily driven by higher volumes and higher raw material costs mainly owing to a stronger USD.

Gross profit

Gross profit for 2015 amounted to SEK 26,354m, compared to SEK 23,475m in 2014, which represented an increase of SEK 2,879m or 12% over 2014. The adjusted gross profit for 2015 amounted to SEK 26,621m, compared to SEK 23,916m in 2014, which represented an increase of SEK 2,705m or 11% over 2014. The increase in adjusted gross profit was primarily driven by better price/mix, higher volumes and cost savings. Higher raw material costs mainly resulting from a stronger USD had a negative impact on gross profit.

Sales, general and administration expenses

Sales, general and administration expenses for 2015 amounted to SEK 16,241m, compared to SEK 15,095m in 2014, which represented an increase of SEK 1,146m or 8% over 2014. In 2015, the Company recognized adjustments for items affecting comparability to sales, general and administration expense of SEK 995m, compared to SEK 568m in 2014, which represented an increase of SEK 427m or 75% over 2014. The increase in sales, general and administration expenses was primarily driven by increased investments in marketing activities for incontinence products.

Share of profits of associates and joint ventures

Share of profits of associates and joint ventures for 2015 amounted to SEK 198m, compared to SEK 106m in 2014, which represented an increase of SEK 92m or 87% over 2014. The increase in profits of associates and joint ventures was primarily driven by a higher result of Asaleo Care.

EBITA and Operating profit

EBITA for 2015 amounted to SEK 10,311m, compared to SEK 8,486m in 2014, which represented an increase of SEK 1,825m or 22% over 2014. Adjusted EBITA for 2015 amounted to SEK 10,603m, compared to SEK 9,495m in 2014, which represented an increase of SEK 1,108m or 12% over 2014. Operating profit for 2015 amounted to SEK 9,684m, compared to SEK 8,360m in 2014, which represented an increase of SEK 1,324m or 16% over 2014. Adjusted operating profit for 2015 amounted to SEK 10,470m, compared to SEK 9,369m in 2014, which represented an increase of SEK 1,101m or 12% over 2014. The increase in adjusted EBITA was primarily driven by better price/mix, higher volumes and cost savings, partially offset by higher raw material costs mainly resulting from a stronger USD. Translation exchange rate effects increased adjusted EBITA by 6%.

Personal Care

Adjusted EBITA for 2015 amounted to SEK 3,997m, compared to SEK 3,528m in 2014, which represented an increase of SEK 469m or 13% over 2014. Adjusted Operating profit for 2015 amounted to SEK 3,990m, compared to SEK 3,526m in 2014, which represented an increase of SEK 464m or 13% over 2014. The increase in adjusted EBITA was primarily driven by a better price/mix, higher volumes and cost savings, partially offset by higher raw material costs mainly resulting from a stronger USD and increased marketing activities for incontinence products. Translation exchange rate effects increased adjusted EBITA by 1%.

Consumer Tissue

Adjusted EBITA for 2015 amounted to SEK 3,846m, compared to SEK 3,858m in 2014, which represented a decrease of SEK 12m or less than 1% over 2014. Adjusted Operating profit for 2015 amounted to SEK 3,773m, compared to SEK 3,798m in 2014, which represented a decrease of SEK 25m or less than 1% over 2014. The decrease in adjusted EBITA was primarily driven by higher raw material costs mainly resulting from a stronger USD. A better price/mix, higher volumes and cost savings had a positive earnings effect. Translation exchange rate effects increased adjusted EBITA by 7%.

Professional Hygiene

Adjusted EBITA for 2015 amounted to SEK 3,497m, compared to SEK 2,918m in 2014, which represented an increase of SEK 579m or 20% over 2014. Adjusted Operating profit for 2015 amounted to SEK 3,444m, compared to SEK 2,854m in 2014, which represented an increase of SEK 590m or 21% over 2014. The increase in adjusted EBITA was primarily driven by a better price/mix, higher volumes and cost savings, partially offset by higher raw material costs mainly resulting from a stronger USD. Translation exchange rate effects increased adjusted EBITA by 10%.

Financial items

Financial income for 2015 amounted to SEK 312m, compared to SEK 416m in 2014, which represented a decrease of SEK 104m or 25% over 2014. Financial expenses for 2015 amounted to SEK 1,140m, compared to SEK 1,156m in 2014, which represented a decrease of SEK 16m or 1% over 2014. Net financial items for 2015 amounted to expenses of SEK 828m, compared to expenses of SEK 740m in 2014, which represented an increase of SEK 88m or 12% over 2014. The increase in net financial items was primarily driven by somewhat higher average interest rates during the year.

Profit before tax

Profit before tax for 2015 amounted to SEK 8,856m, compared to SEK 7,620m in 2014, which represented an increase of SEK 1,236m or 16% over 2014. Adjusted profit before tax for 2015 amounted to SEK 9,642m, compared to SEK 8,629m in 2014, which represented an increase of SEK 1,013m or 12% over 2014. The increase in adjusted profit before tax was primarily driven by a higher adjusted EBITA.

Tax

Tax expense for 2015 amounted to SEK 2,278m, compared to SEK 1,939m in 2014, which represented an increase of SEK 339m or 17% over 2014. The tax expense for 2015 corresponds to an effective tax rate of 26%, compared to 25% in 2014. Adjusted tax expense for 2015 amounted to SEK 2,745m, compared to SEK 2,162m for 2014, which represented an increase of SEK 583m or 27% over 2014. The increase in tax expense was primarily driven by higher profit before tax.

Items Affecting Comparability

Items affecting comparability for 2015 amounted to SEK 786m, compared to SEK 1,009m in 2014, which represented a decrease of SEK 223m or 22% over 2014. In 2015, items affecting comparability related primarily to: impairment of trademarks of SEK 465m; impairment of assets of SEK 375m and integration costs of SEK 440m related to the Georgia-Pacific acquisition; costs of SEK 170m related to the divestment of the business jet operation; and other which includes transaction costs of SEK 306m and a gain of SEK 970m from the sale of securities.

Profit for the period

Profit for the period in 2015 amounted to SEK 6,578m, compared to SEK 5,681m in 2014, which represented an increase of SEK 897m or 16% over 2014. The adjusted profit for the period in 2015 amounted to SEK 6,897m, compared to SEK 6,467m in 2014, which represented an increase of SEK 430m or 7% over 2014. The increase in profit for the period was primarily driven by a higher EBITA.

Liquidity and capital resources

Working capital statement

It is Essity's assessment that its working capital is sufficient for the present requirements during the next twelve months. In this context, working capital is the Company's ability to access cash and other available liquid resources in order to meet its liabilities as they come due. As of March 31, 2017, Essity had SEK 30,616m in cash and cash equivalents.[1)]

Cash flow

Cash flow from operating activities

Cash flow from operating activities for the first quarter of 2017 amounted to SEK 2,887m, compared to SEK 1,697m in the first quarter of 2016, which represented an increase of SEK 1,190m or 70% over the first quarter of 2016. This increase in cash flow from operating activities was primarily driven by a decreased working capital, mainly due to changes in operating liabilities.

Cash flow from operating activities in 2016 amounted to SEK 12,778m, compared to SEK 10,780m in 2015, which represented an increase of SEK 1,998m or 19% over 2015. This increase was primarily attributable to changes in working capital, mainly due to a lower inventory. Increased tax paid had a negative impact on cash flow from operating activities.

Cash flow from operating activities in 2015 amounted to SEK 10,780m, compared to SEK 9,758m in 2014, which represented an increase of SEK 1,022m or 10% over 2014. This increase was primarily attributable to improved profit before tax.

Cash flow from investing activities

Cash flow from investing activities for the first quarter of 2017 amounted to an outflow of SEK 1,123m, compared to SEK 5,593m in the first quarter of 2016, which represented a decrease of SEK 4,470m or 80% over the first quarter of 2016. The decrease in cash flow from investing activities was primarily driven by the fact that the Company undertook no acquisitions during the first quarter of 2017, compared to the same period 2016 when it acquired Wausau.

Cash flow from investing activities in 2016 amounted to an outflow of SEK 10,119m, compared to SEK 3,263m in 2015, which represented an increase of SEK 6,856m or 210% over 2015. The increase was primarily attributable to acquisitions and increased investments in tangible and intangible assets. Effect on liquidity from the acquisition of Wausau amounted to SEK –4,387m.

Cash flow from investing activities in 2015 amounted to an outflow of SEK 3,263m, compared to SEK 4,909m in 2014, which represented a decrease of SEK 1,646m or 34% over 2014. Sale of securities impacted cash flow by SEK 2,046m in 2015.

Cash flow from financing activities

Cash flow from financing activities for the first quarter of 2017 amounted to an outflow of SEK 24,609m, compared to SEK 3,496m in the first quarter of 2016, which represented an increase of SEK 21,113m or 604% over the first quarter of 2016. The increase in cash flow from financing activities was primarily driven by new loans in connection with the financing of BSN medical.

1) The difference in liquid resources compared to December 31, 2016 is primarily related to that Essity raised new loans in connection with the financing of BSN medical. The acquisition of BSN medical was completed on April 3, 2017. See "*Acquisition of BSN medical and presentation of certain financial information for BSN medical*" in the section entitled "*Capitalization and other financial information*".

Cash flow from financing activities in 2016 amounted to an outflow of SEK 3,389m, compared to SEK 6,391m in 2015, which represents a decrease of SEK 3,002m or 47% over 2015. The change was primarily attributable to an increase in loans raised during 2016.

Cash flow from financing activities in 2015 amounted to an outflow of SEK 6,391m, compared to SEK 5,106m in 2014, which represents an increase of SEK 1,285m or 25% over 2014. The change was primarily attributable to an increase of the amortization of the Company's outstanding debt.

Capital expenditures

Strategic and current capital expenditures

Essity's investments in intangible assets and property, plant and equipment during the financial years 2014–2016 and during the period January–March 2016 and 2017 consist mainly of:

- Strategic capital expenditures in non-current assets, to increase Essity's future cash flow through capital expenditures to expand facilities, or new technologies that boost competitiveness; and
- Current capital expenditures consist of investments to maintain competitiveness such as maintenance, rationalization and replacement measures or investments of an environmental nature.

These investments are summarized in the table below.

Investments in intangible assets and property, plant and equipment

SEKm	Jan-Mar 2017 (unaudited)	Jan-Mar 2016 (unaudited)	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2014
Measures to raise the capacity level of operations (Strategic capital expenditures)	–256	–422	–2,033	–2,179	–1,632
Measures to uphold capacity level (Current capital expenditures)	–627	–669	–4,306	–3,500	–2,964
Total	**–883**	**–1,091**	**–6,339**	**–5,679**	**–4,596**

Strategic capital expenditures in non-current assets in the first quarter of 2017 amounted to SEK –256m, compared to SEK –422m in the first quarter of 2016, which represented a decrease of SEK 166m or 39% over the first quarter of 2016. The strategic capital expenditures in the first quarter of 2017 were related to several strategic investments to grow the business.

Strategic capital expenditures in non-current assets in 2016 amounted to SEK –2,033m, compared to SEK 2,179m in 2015, which represented a decrease of SEK 146m or 7% over 2015. The strategic capital expenditures in 2016 were related to several strategic investments, such as investments in a new product facility in Brazil.

Strategic capital expenditures in non-current assets in 2015 amounted to SEK –2,179m, compared to SEK 1,632m in 2014, which represented an increase of SEK 547m or 34% over 2014. The strategic capital expenditures in 2015 were related to several strategic investments, such as investments in a new product facility in Brazil.

Current capital expenditures in the first quarter of 2017 amounted to SEK –627m, compared to SEK –669m in the first quarter of 2016, which represented a decrease of SEK 42m or 6.3% over the first quarter of 2016. The investments consisted of current capital expenditures within all Business Areas.

Current capital expenditures in 2016 amounted to SEK –4,306m, compared to SEK –3,500m in 2015, which represented an increase of SEK 806m or 23% over 2015. The investments consisted of current capital expenditures within all Business Areas.

Current capital expenditures in 2015 amounted to SEK –3,500m, compared to SEK –2,964m in 2014, which represented an increase of SEK 536m or 18% over 2014. The investments consisted of current capital expenditures within all Business Areas.

The Group's main capital expenditures in intangible assets and property, plant and equipment during the period from March 31, 2017 until the date of the prospectus, comprised of strategic and current capital expenditures customary to the Company. See also "*Acquisitions and divestments*" below for a description of the acquisitions and divestments made during the financial years 2014–2016 and during 2017 until the date of the prospectus.

On-going and future capital expenditures

The Group's main on-going and future capital expenditures consist of the following: (i) current capital expenditures and (ii) strategic investments of approximately SEK 160m in a through-air drying (TAD) machine at Essity's tissue plant in Skelmersdale, approximately SEK 950m in one of the Group's facilities in Mexico and approximately SEK 380m in facilities in Europe to strengthen its baby diaper product offering.

The on-going and future capital expenditures are expected to be financed by cash flow generated from the Group's operations.

Acquisitions and divestments

The following section contains a description of the main acquisitions and divestments pertaining to the hygiene business made by the SCA Group during the years 2014–2017 until the date of this prospectus.

In 2014, Essity made a number of minor acquisitions, which were jointly recognized in the acquisition balance sheet as of December 31, 2014, since no individual transaction was of a material nature. Acquisitions made during 2014 totaled SEK 508m, including assumed net debt. On August 1, 2014 Essity's subsidiary Vinda acquired an additional 50% interest in its associated company Vinda Personal Care, for HKD 295m. Earlier holdings in Vinda Personal Care were restated in accordance with IFRS resulting in a positive re-measurement effect of SEK 33m. In June 2014, Essity acquired the remaining 50% of its joint venture Fine Sancella in Jordan from the Nuqul Group, for an aggregate consideration of SEK 171m. No divestments were made in 2014.

In July 2015, Essity and Nampak agreed to divest the baby diaper operations of the jointly-owned South African company Sancella S.A., through a sale to another South African company for an aggregate consideration of SEK 116m. Essity also signed an agreement to acquire the remaining 50% of Sancella S.A. from Nampak for an aggregate consideration of SEK 1. All of Essity's acquisitions during 2015, which amounted to SEK 74m, were made in cash.

In June 2016, the SCA Group divested 33.3% of its holding in the recycling company IL Recycling, of which Essity owned 16.66%, of which Essity's consideration amounted to SEK 120m. In November 2016, Essity divested its remaining non-current assets held in China (which were not included in the hygiene business transferred to Vinda in 2014), for an aggregate consideration of SEK 169m. In addition to these divestments, Essity received consideration for a number of minor divestments in China and Sweden, in a total amount of SEK 29m.

In 2016, Essity's public bid for Wausau's purchase was completed, for an aggregate consideration of USD 513m (SEK 4,401m) in cash.

In December 2016, Essity entered into an agreement to acquire BSN medical for a purchase price of EUR 1,400m for the shares and the takeover of net debt amounts to approximately EUR 1,340m[1]. On April 3, 2017, Essity completed the acquisition of BSN medical. The acquisition's effect on the Company's earnings, cash flow and financial position will be reflected in the Company's future financial statements. See "*Acquisition of BSN medical and presentation of certain financial information for BSN medical*" in the section entitled "*Capitalization and*

[1] Based on net debt as per December 31, 2016. Final takeover of net debt will be based on March 31, 2017.

other financial information" for a description of BSN medical's financial position.

See "*Acquisitions and divestments*" in the section entitled "*Legal Considerations and supplementary information*" for a description of material agreements related to the acquisitions and divestments of companies.

Credit facilities and loans

The tables below show Essity's main credit facilities and loans as of March 31, 2017. See also the section entitled "*Capitalization and other financial information*" for a description of the Group's capitalization and indebtedness as of March 31, 2017, and material changes thereafter.

Credit Facilities

Type (unaudited)	Nominal amount	Utilized, Mar 31, 2017, SEKm	Unutilized, Mar 31, 2017, SEKm	Maturity
Syndicated revolving credit facility[1]	EUR 1,000m	0	9,542	2021
Syndicated revolving credit facility[2]	EUR 1,000m	0	9,542	2019
Total		**0**	**19,084**	

1) The syndicate consists of ANZ Bank (Europe) Limited; BNP Paribas Fortis SA/NV, Bankfilial Sverige; Citibank Europe plc; Commerzbank Aktiengesellschaft; Crédit Agricole Corporate and Investment Bank, France, Sweden branch; Danske Bank A/S, Danmark, Sverige Filial; Deutsche Bank Luxembourg S.A.; ING Belgium N.V./S.A.; J.P. Morgan Securities plc; Nordea Bank AB (publ); Skandinaviska Enskilda Banken AB (publ); Svenska Handelsbanken AB (publ); Swedbank AB (publ); The Royal Bank of Scotland plc and UniCredit Bank Austria AG.

2) The syndicate consists of Bank of America Merrill Lynch International Limited; BNP Paribas Fortis SA/NV, Bankfilial Sverige; Citibank Europe plc; Commerzbank Aktiengesellschaft; Crédit Agricole Corporate and Investment Bank, France, Sweden Branch; Danske Bank A/S, Danmark, Sverige Filial; Deutsche Bank Luxembourg S.A.; ING Belgium N.V./S.A.; Nordea Bank AB (publ); Skandinaviska Enskilda Banken AB (publ); Svenska Handelsbanken AB (publ); Standard Chartered Bank; Swedbank AB (publ); The Royal Bank of Scotland plc and UniCredit Bank Austria AG.

EMTN Program

Type (unaudited)	Nominal amount	Maturity	Carrying amount, Mar 31, 2017, SEKm	Fair value, Mar 31, 2017, SEKm	Coupon
Notes EUR 300m	EUR 300m	2018	2,857	2,860	0.000%
Notes SEK 600m	SEK 600m	2019	603	606	3 month STIBOR plus 0.750%
Notes SEK 900m	SEK 900m	2019	909	913	0.750%
Green bond SEK 1,000m	SEK 1,000m	2019	999	1,002	3 month STIBOR plus 0.680%
Green bond SEK 500m	SEK 500m	2019	500	525	2.500%
Notes EUR 300m	EUR 300m	2020	2,847	2,840	0.500%
Notes EUR 500m	EUR 500m	2021	4,712	4,721	0.500%
Notes EUR 600m	EUR 600m	2022	5,689	5,674	0.625%
Notes EUR 500m	EUR 500m	2023	5,165	5,179	2.500%
Notes EUR 600m	EUR 600m	2024	5,701	5,685	1.125%
Notes EUR 300m	EUR 300m	2025	2,867	2,792	1.125%
Notes EUR 500m	EUR 500m	2027	4,733	5,071	1.625%
Total			**37,582**	**37,868**	

Commercial Paper Programs

Type (unaudited)	Amount issued, Mar 31, 2017, SEKm
Swedish, SEK 15,000m	7,337
Belgian, EUR 800m	-
Total	**7,337**

Other main loan facilities

Type (unaudited)	Nominal amount	Amount, Mar 31, 2017, SEKm	Maturity
European Investment Bank[1]	SEK 1,850m	1,850	2021
Nordic Investment Bank	EUR 200m	1,908	2024
Swedish Export Credit Corporation	SEK 2,900m	2,900	2018/2023[3]
Syndicated loans[2]	EUR 272.7m	1,342	2020/2022/2022
KFW Ipex-bank	EUR 90m	859	2021
KFW Ipex-bank	USD 124.3m	1,109	2021
Total		**9,968**	

1) AB SCA Finans is formally the borrower and Essity is the guarantor under the agreement.

2) Consisting of three syndicated term loan facilities with various final repayment dates. The syndicates consist of i) IKB Deutsche Industriebank AG, Nordea Bank AB (publ), Svenska Handelsbanken AB (publ), Deutsche Postbank AG and KFW Ipex-bank GmbH; ii) IKB Deutsche Industriebank AG, Nordea Bank AB (publ) and KFW Ipex-bank GmbH; and iii) IKB Deutsche Industriebank AG, BNP Paribas S.A. Niederlassung Frankfurt am Main, Crédit Agricole Corporate and Investment Bank Deutschland, Commerzbank Aktiengesellschaft, KFW Ipex-bank GmbH, SEB AG and Unicredit Bank Austria AG. IKB Deutsche Industriebank AG acts as arranger and agent of the syndicated loans.

3) SEK 1,500m is due for final repayment 2018 and SEK 1,400m in 2023.

Description of certain main credit agreements and loans

As presented in the tables above, the Group's financial arrangements are mainly comprised of (i) two EUR 1,000m committed multicurrency revolving credit facilities with a syndicate of banks due 2019 and 2021, (ii) a EUR 6,000m medium term note program under which the Company has issued EUR 3,600m and SEK 3,000m of nominal amount of notes as of March 31, 2017, (iii) a SEK 15,000m Swedish commercial paper program and a EUR 800m Belgian commercial paper program under which the Company has issued SEK 7,337m of commercial paper under the Swedish program (as of the same date there were no amounts issued under the Belgian program), respectively, as of March 31, 2017, and (iv) bilateral loan facilities with the European Investment Bank, the Nordic Investment Bank, the Swedish Export Credit Corporation and KFW Ipex-bank and three syndicated loan facilities with IKB Deutsche Industribank AG as arranger and agent.

Most of the Group's financing arrangements contain cross-default provisions that may accelerate the Company's obligation to repay debts if certain events of default occur under the Company's or its principal subsidiaries' other financing arrangements. These cross-default provisions are subject to threshold amounts that must be exceeded for such cross-default provisions to be triggered.

The Group's policy is to enter into financial arrangements that do not contain clauses that may entitle creditors to terminate or modify the material terms of the arrangements in the event that the Group's financial key ratios or credit rating change.

As described below, SCA has provided guarantees as to the Group's obligations under certain financing arrangements. Such guarantees will automatically be terminated upon the completion of the distribution of Essity on or around the first day of trading in the Essity shares on Nasdaq Stockholm, provided that (i) there are no outstanding claims towards SCA in relation to the guarantees, (ii) no events of default have occurred or are caused as a result of the release of SCA's guarantees and (iii) the warranties provided in connection with the separation are correct. Essity expects that no additional costs will occur for Essity as a borrower as a result of the termination of the guarantees.

Revolving Credit Facilities

The Group's main credit facilities comprise (i) a EUR 1,000m committed multicurrency revolving credit facility due 2019 with a syndicate of banks, and (ii) a EUR 1,000m committed multicurrency revolving credit facility due 2021 with a syndicate of banks. The revolving credit facilities contain certain representation and warranties and covenants relating to, inter alia, financial reporting, negative pledges, restrictions on disposal of assets and restrictions regarding change of business. The revolving credit facilities also contain event of default provisions. All these provisions are in line with the Group's finance policy. As of March 31, 2017, no amount had been drawn on the revolving credit facilities.

SCA guarantees the Group's obligations under the revolving credit facilities. Upon the distribution of Essity being completed, the guarantees granted by SCA for the obligations of the Group will automatically be terminated and SCA will be released from all its obligations under such guarantees.

EMTN Program

The Group has a EUR 6,000m euro medium term note program. The EMTN program contains, inter alia, negative pledge and redemption covenants and event of default provisions, which are in line with the Group's finance policy. As of March 31, 2017, the aggregated fair value of outstanding notes issued under the EMTN Program amounted to SEK 37,868m.

SCA guarantees the Group's obligations under the notes issued under the EMTN program. Upon the distribution of Essity being completed, the guarantees granted by SCA for the obligations of the Group will automatically be terminated and SCA will be released from all its obligations under such guarantees.

Commercial Paper Programs

The Group has (i) a SEK 15,000m Swedish commercial paper program and (ii) a EUR 800m Belgian commercial paper program. The commercial paper programs contain, inter alia, negative pledge covenants and event of default provisions, which are in line with the Group's finance policy. The Group's short-term borrowing under these market programs has a refinancing risk which is partly secured through the unutilized committed bank credit facilities. As of March 31, 2017, commercial paper of an aggregate amount of SEK 7,337m was issued under the Swedish program. As of the same date, no commercial paper was issued under the Belgian program.

SCA guarantees the Group's obligations pertaining to commercial paper issued under the Swedish commercial paper program. Upon the distribution of Essity being completed, the guarantees granted by SCA for the obligations of the Group will automatically be terminated and SCA will be released from all its obligations under such guarantees.

Certain other main loan facilities

In addition to the financial arrangements described above, the Group's financial arrangements are mainly comprised of a number of term loan facilities with, among others, the European Investment Bank, the Nordic Investment Bank, the Swedish Export Credit Corporation and KFW Ipex-bank. In addition, the Group has entered into three syndicated loan facilities with IKB Deutsche Industribank AG as arranger and agent. The aggregate amount outstanding on these term loans was SEK 9,968m as of March 31, 2017. These agreements are subject to a range of representation and warranties and covenants relating to, inter alia, financial reporting, negative pledges, restrictions on disposal of assets and restrictions regarding change of business, and also contain event of default provisions, which are in line with the Group's finance policy.

Further, certain subsidiaries within the Group have entered into local credit facilities, mainly with local banks as lenders that are, in certain instances, guaranteed by the Company. The majority of such loan facilities are uncommitted and intended for subsidiaries' working capital purposes.

Contractual obligations

The following table summarizes the Group's financial liabilities as of March 31, 2017.

SEKm (unaudited)	**March 31, 2017**
Current financial liabilities	
Amortization within 1 year	283
Bond issues	–
Derivatives	603
Loans with maturities of less than 1 year	9,078
Accrued financial expenses	105
Total[1)]	**10,069**
Non-current financial liabilities	
Bond issues	37,582
Derivatives	37
Other long-term loans with maturities > 1 year < 5 years	9,808
Other long-term loans with maturities > 5 years	4,166
Total	**51,593**
Total financial liabilities	**61,662**
Fair value of financial liabilities	61,707

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

In addition to the financial liabilities described above, the Group has a number of operating and financial leases, see note G2 on p. F-80 in the section entitled "*Historical financial information*". The following tables summarize aggregated future minimum lease payments under the Group's leasing agreements, as of December 31, 2016.

SEKm	**December 31, 2016**
Operating leases, future minimum lease payments[1)]	
Within 1 year	515
Between 1 year and 5 years	1,209
Later than 5 years	1,392
Total	**3,116**

1) 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 reality, it is possible to terminate contracts early.

SEKm	**December 31, 2016**
Finance leases, future minimum lease payments	
Within 1 year	1
Between 1 year and 5 years	1
Later than 5 years	–
Total	**2**
Of which, interest	0
Present value of future minimum lease payments	**2**

For a description of certain pension plans and obligations, see note C5 on p. F-56 in the section entitled "*Historical financial information*".

See the section entitled "*Legal considerations and supplementary information*" for further information on the Group's material agreements outside the ordinary course of business.

Research and development expenses

The table below shows Essity's research and development expenses, including as a percentage of net sales, during the financial years 2014–2016 and the period January–March 2016 and 2017.

SEKm	Jan-Mar 2017 (unaudited)	Jan-Mar 2016 (unaudited)	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2014
Research and development costs	–289	–280	–1,211	–1,055	–1,017
Research and development costs, % of net sales	1.1%	1.2%	1.2%	1.1%	1.2%

See also "*Research and development*" in the section entitled "*Market and business description*" for a further description of the Group's research and development processes. Also, see "*Acquisition of BSN medical and presentation of certain financial information for BSN medical*" in the section entitled "*Capitalization and other financial information*" for a description of BSN medical's research and development expenses.

Financial position

Net debt as of March 31, 2017, amounted to SEK 32,122m, compared to SEK 35,173m as of December 31, 2016, which represented a decrease of SEK 3,051m or 9%. The net cash flow decreased net debt by SEK 2,262m. Fair value measurement of pension assets and revision to the assumptions and assessments that influence the valuation of pension obligations decreased net debt by SEK 779m. Exchange rate movements decreased the net debt during the period by SEK 10m.

Equity as of March 31, 2017 amounted to SEK 43,108m, compared to SEK 39,580m as of December 31, 2016, which represented an increase of SEK 3,528m or 9%. Profit for the first quarter of 2017 increased equity by SEK 1,656m, while shareholder dividends to non-controlling interests reduced equity by SEK 16m. Equity was increased due to the fair value measurement of pension assets, and an update of the assumptions and assessments that influence the valuation of pension obligations, by SEK 543m after tax. The measurement of financial instruments at fair value decreased equity by SEK 186m. Exchange rate movements, including the effect of hedges of net foreign investments, increased equity by SEK 266m. Equity increased as a result of a private placement to non-controlling interests by SEK 960m. Other comprehensive income in associates decreased equity by SEK 29m, while transactions with shareholders increased equity by SEK 243m. Income tax attributable to components in other comprehensive income increased equity by SEK 91m.

Net debt as of December 31, 2016, amounted to SEK 35,173m, compared to SEK 19,058m as of December 31, 2015, which represented an increase of SEK 16,115m or 85%. The increase was primarily attributable to transactions with shareholders and the allocation of SCA Group's net debt between SCA and Essity. Additionally, fair value measurement of pension assets and revision to the assumptions and assessments that influence the valuation of pension obligations, net increased net debt by SEK 1,570m. The increase in the net pension liability is largely attributable to assumptions of a lower discount rate that increases pension liabilities. Exchange rate movements increased net debt during the period by SEK 578m.

Equity as of December 31, 2016 amounted to SEK 39,580m, compared to SEK 48,275m as of December 31, 2015, which represented a decrease of SEK 8,695m or 18%. Profit for 2016 increased equity by SEK 4,242m, while shareholder dividends to non-controlling interests reduced equity by SEK 190m. Equity was reduced due to the fair value measurement of pension assets, and an update of the assumptions and assessments that influence the valuation of pension obligations, by SEK 1,149m after tax. The measurement of financial instruments at fair value increased equity by SEK 393m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 2,401m. Equity increased as a result of a private placement to non-controlling interests by SEK 431m and decreased due to the acquisition of non-controlling interests by SEK 156m. Other comprehensive income in associates increased equity by SEK 11m after tax, while transactions with shareholders reduced equity by SEK 14,679m. Transactions with shareholders were mainly driven by the allocation of net debt between Essity and SCA, of SEK 11,912m.

Net debt as of December 31, 2015 decreased by SEK 6,008m to SEK 19,058m, compared with SEK 25,066m as of December 31, 2014. Higher net cash flow during 2015 decreased net debt by SEK 2,887m. Furthermore, net debt declined by SEK 1,281m as a result of fair value measurement of pension assets and re-measurement of pension obligations, together with fair valuation of financial instruments. Exchange rate movements decreased net debt by SEK 1,840m.

Equity as of December 31, 2015 increased by SEK 3,350m to SEK 48,275m, compared with SEK 44,925m as of December 31, 2014. Profit for 2015 increased equity by SEK 6,578m, while shareholder dividends to non-controlling interests reduced equity by SEK 216m. Equity was increased due to the fair value measurement of pension assets and re-measurement of pension obligations by SEK 1,515m after tax. The measurement of financial instruments to fair value decreased equity by SEK 741m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, decreased equity by SEK 1,988m. Additionally, equity decreased due to the acquisition of non-controlling interests by SEK 19m. Other comprehensive income in associates decreased equity by SEK 17m after tax, while transactions with shareholders reduced equity by SEK 1,762m.

Property, plant and equipment

As of March 31, 2017, Essity's property, plant and equipment amounted to SEK 47,882m, mainly comprising of production facilities. Essity's expense for operating leases on assets such as warehouses, offices, other buildings, machinery and equipment, IT equipment, office fixtures and various vehicles, totaled SEK 293m during the three-month period ended March 31, 2017. As of March 31, 2017, Essity owned and leased approximately 80 plants across over 30 countries.

For information on pledged assets, see note G3 on p. F-81 in the section entitled "*Historical financial information*". See also "*On-going and future capital expenditures*" above for a description on certain significant future capital expenditures related to tangible fixed assets.

See "*Acquisition of BSN medical and presentation of certain financial information for BSN medical*" in the section entitled "*Capitalization and other financial information*" for a description of certain material tangible assets in respect of BSN medical.

Sensitivity analysis

The Group has conducted sensitivity analyses in relation to its defined benefit pension obligations, its financial risk exposure and the financial income and expenses, as well as conducted impairment tests on goodwill. For further information, please see note C5, D1, E6 and E7 on p. F-56, 59, 66 and 68, in the section entitled "*Historical financial information*".

Financial exposure and risk management

In its operations, Essity is exposed to, among other things, currency risk, credit risk, liquidity and refinancing risk and interest rate risk. Essity has a centralized financial risk management policy and intra-Group cash-pooling arrangement to provide liquidity required for operations. The following section contains a brief description of the Group's financial risk exposure and risk management policies. Please also see note E8 on p. F-69 in the section entitled "*Historical financial information*" for a further description.

Currency risk

The Group's currency risk stems from both transaction exposure and translation exposure.

Transaction exposure

The Group's forecasted net flows of currency against SEK for 2017 amount to SEK –892m. As of December 31, 2016, a net flow against SEK corresponding to three months of the forecast flows for 2017, or SEK 233m, was hedged. The majority of these hedges matured during the first quarter of 2017. The Group's forecast and hedges of net flows of currency against SEK for the full year 2017 are shown in the table below. For further information relating to hedging of transaction exposure, see note E6 on p. F-66 in the section entitled "*Historical financial information*".

Currency	Net flows, SEKm	Currency inflows, SEKm	Currency outflows, SEKm	Hedged inflows, %	Hedged outflows, %
CNY	3,697	3,697	0	0	0
GBP	3,210	3,688	–478	0	0
RUB	987	1,039	–52	0	0
PLN	975	2,154	–1,179	2	0
NOK	799	808	–9	0	0
CHF	761	818	–57	0	0
MXN	759	1,752	–993	1	0
DKK	595	644	–49	0	0
Other	2,529	4,365	–1,836	2	0
EUR	–382	11,710	–12,092	2	0
SEK	–892	5,839	–6,731	0	26
USD	–13,038	3,171	–16,209	0	2

Translation exposure

As of December 31, 2016, the Group's aggregate capital employed in foreign currency amounted to SEK 74,306m. The Group's distribution of capital employed by currency at year-end 2016 is shown in the table below. As of December 31, 2016, capital employed of SEK 74,306m was financed in the amount of SEK 19,732m in foreign currency, which is equivalent to a total matching ratio of 27%. For further information relating to hedging of translation exposure, see note E6 on p. F-66 in the section entitled "*Historical financial information*".

Currency	Capital employed, SEKm	Net debt, SEKm	Matching financing, %
EUR	25,016	4,658	19
USD	14,419	5,566	39
CNY	13,402	4,026	30
MXN	4,309	1,221	28
GBP	4,306	1,072	25
COP	2,599	462	18
RUB	2,209	515	23
Other	8,046	2,212	27
Total currencies	**74,306**	**19,732**	**27**
SEK	447	15,441	
Total	**74,753**	**35,173**	

Long-term currency sensitivity

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

Currency	Net sales 2016, %	Operating expenses 2016, %	Adjusted operating profit[1] 2016, SEKm	Closing rate Dec 31, 2016	Average rate 2016
EUR	38	39	3,854	9.5582	9.4560
USD	17	29	-8,679	9.0840	8.5435
CNY	10	6	4,930	1.3079	1.2866
GBP	8	4	4,939	11.1624	11.5778
MXN	4	3	1,516	0.4390	0.4585
COP	3	3	420	0.0030	0.0028
RUB	3	3	772	0.1492	0.1282
CAD	2	1	307	6.7339	6.4538
Other	15	12	3,774		
Total	**100**	**100**	**11,833**		

[1] Non-IFRS measure, unaudited (alternative performance measure). See "*Reconciliation of non-IFRS measures*" in the section entitled "*Selected historical financial information*".

Credit risk

The Group is exposed to credit risk stemming from the possible non-payment by the Group's counterparties in financial agreements or by its customers.

Credit risk in financial agreements is managed by ensuring that counterparties have a minimum credit rating of A- (or its equivalent) from at least two of the following rating agencies: Moody's, Fitch or Standard & Poor's. The Group strives to enter into financial agreements that allow net calculation of receivables and liabilities. Credit exposure in derivative instruments is accounted for at fair value of the instrument. As of December 31, 2016, the Group's total credit exposure was SEK 5,214m, which includes credit risk for financial investments in the amount of SEK 4,244m, credit exposure in derivative instruments in the amount of SEK 971m. There is also exposure to the SCA Group. For further information, please see note G4 on p. F-81 in the section entitled "*Historical financial information*".

Credit risk in accounts receivable is managed through credit checks of customers using credit rating companies. The Group sets credit limits for its customers and regularly monitors them. Accounts receivable are recognized at the amount that is expected to be paid based on an individual assessment of each customer.

Liquidity and refinancing risk

The Group is exposed to liquidity and refinancing risk stemming from its possible inability to meet payment obligations as a result of insufficient liquidity or difficulty in rolling over old debt.

The Group strives to ensure continued access to financing on favorable terms, regardless of the economy, by maintaining a *solid investment grade rating*. The Group also maintains financial flexibility in the form of a liquidity reserve consisting of cash, cash equivalents and unutilized credit facilities totaling at least 10% of the Group's forecasted annual sales. As of December 31, 2016, unutilized credit facilities amounted to SEK 19,164m and cash and cash equivalents amounted to SEK 4,244m. The Group limits its refinancing risk by ensuring that the maturity profile of its gross debt is diversified and has an average maturity in excess of three years, including unutilized credit facilities that are not considered liquidity reserves. As of December 31, 2016, the average maturity of gross debt was 4.0 years. Further, the Group's policy is to not enter into financing arrangements that entitle the lender to withdraw loans or adjust interest rates as a direct consequence of movements in the Group's financial key figures or credit rating. The Group primarily uses surplus liquidity to amortize external liabilities.

The Group's financing is mainly comprised of the credit facilities, EMTN Program and commercial paper programs. The Group's short-term refinancing risk is mitigated through the Group's long-term credit facilities from bank syndicates and individual banks with favorable creditworthiness. If short-term loans were replaced with drawings under long-term unutilized credit facilities, the maturity would amount to 4.5 years. For further information, see note E8 on p. F-69 in the section entitled "*Historical financial information*". See "*Credit facilities and loans*" above for a description of the Group's main financing sources as of March 31, 2017, and the section entitled "*Capitalization and other financial information*" for a description of the Group's capitalization and indebtedness as of March 31, 2017.

Liquidity reserve

SEKm	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**
Unutilized credit facilities	19,164	18,583	19,396
Cash and cash equivalents	4,244	4,828	3,806
Total	**23,408**	**23,411**	**23,202**

	2016	**2015**	**2014**
Net sales	101,238	98,519	87,997
Liquidity reserve[1]	23%	24%	26%

[1] Liquidity reserve in percentage in relation to net sales.

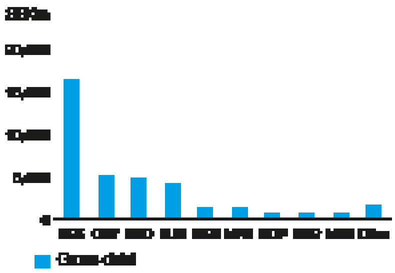
Interest rate risk

The Group is exposed to interest rate risk stemming from movements in interest rates which could have a negative impact on the Group's net financial items.

The Group seeks to achieve a good distribution of its interest maturity dates to avoid large volumes of renewals occurring at the same time. The Group's policy is to raise loans with floating rates, since it is the Group's understanding that this leads to lower interest expense over time.[1] 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.

The Group's net financial items increased in 2016 as a result of higher borrowing. The Group's largest funding currencies are denominated in SEK, CNY and USD, see graph below. To achieve the desired fixed interest period and currency balance, the Group uses financial derivatives. The average interest period for the gross debt, including derivatives, was 8.5 months as of December 31, 2016. The average interest rate for the total outstanding net debt including derivatives, amounted to 2.26% as of December 31, 2016.

Gross debt distributed by currency



[1] As a result of the acquisition of BSN medical, which increased the Group's indebtedness, Essity resolved in December 2016 to deviate from the Group's financial policy with respect to interest term and currency, enabling the Company to issue Notes under the EMTN Program totalling EUR 2,000m in four tranches in the European bond market, with an average maturity of 6.3 years. The bonds were issued in March 2017, and were retained under this exception to fixed rate, as part of long-term financing of BSN medical.

Capitalization and other financial information

Equity and indebtedness

Equity and liabilities

Set forth below is Essity's capitalization as of March 31, 2017.

SEKm (unaudited)	March 31, 2017
Total current debt	**10,553**
Guaranteed*)	8,461
Secured	–
Unguaranteed/unsecured	2,092
Total non-current debt	**51,593**
Guaranteed*)	47,529
Secured	–
Unguaranteed/unsecured	4,064
Shareholders' equity	**43,108**
Share capital	0[1]
Legal reserves	–
Other reserves	43,108

*) Primarily relates to guarantees provided by SCA for various loans raised by Essity.
1) The share capital amounted to SEK 500,000 as of March 31, 2017, but has been rounded in the above table.

Net indebtedness

Set forth below is Essity's net indebtedness as of March 31, 2017.

SEKm (unaudited)	March 31, 2017
(A) Cash	29,117
(B) Cash equivalents	1,499
(C) Trading securities	–
(D) Liquidity (A)+(B)+(C)	**30,616**
(E) Current financial receivables	**2,880**
(F) Current bank debt	2,206
(G) Current portion of non-current debt	283
(H) Other current financial debt	8,064
(I) Current financial debt (F)+(G)+(H)	**10,553**
(J) Net current financial indebtedness (I)-(E)-(D)	**–22,943**
(K) Non-current bank debt	7,254
(L) Bonds issued	37,582
(M) Other non-current loans	6,757
(N) Non-current financial indebtedness (K)+(L)+(M)	**51,593**
(O) Net financial indebtedness (J)+(N)	**28,650**

Significant changes in Essity's equity and net indebtedness since March 31, 2017

See "*Significant changes since March 31, 2017*" below for a description of significant changes in Essity's equity and net indebtedness since March 31, 2017 until the date of this prospectus.

Contingent liabilities/indirect indebtedness

The following table presents Essity's contingent liabilities as of March 31, 2017.

SEKm (unaudited)	March 31, 2017
Guarantees for	
associates	6
customers and other	39
Other contingent liabilities[1]	214
Total	**259**

1) Other contingent liabilities above relates to recovery fees/taxes for packaging material in France where the claim is subject to legal proceedings.

Significant changes since March 31, 2017

Acquisition of BSN medical and presentation of certain financial information for BSN medical

In April 2017, Essity completed the acquisition of BSN medical for a purchase price of EUR 1,400m for the shares and the takeover of net debt amounting to approximately EUR 1,340m.[1] The acquisition's effect on the Company's earnings, cash flow and financial position will be reflected in the Company's future financial statements. BSN medical reported net sales for 2016 of EUR 850m (SEK 8,038m)[2], adjusted EBITA[3] of EUR 197m (SEK 1,863m)[4], an adjusted operating profit[5] of EUR 145m (SEK 1,371m)[6], an adjusted operating margin[7] of 17.1%. See "*Acquisition of BSN medical*" in the section entitled "*Legal considerations and supplementary information*" for a description of the agreement governing the acquisition of BSN medical and "*Medical Solutions*" in the section entitled "*Market and business description*" for a description of the operations of BSN medical.

The acquisition of BSN medical was mainly financed by the issuance of notes under the EMTN Program of EUR 2,000m and of the issuance of commercial papers under the Swedish Commercial Paper Program of SEK 7,337m in March 2017. The payment of the purchase price and the refinancing of overtaken net debt increased Essity's net indebtedness with SEK 26,047m according to the preliminary purchase price allocation as of March 31, 2017.

The following section presents certain financial performance measures for BSN medical that are not defined under IFRS. These measures have not been reviewed or audited by the Company's or BSN medical's auditor. Essity believes that these measures are helpful and commonly used by certain investors, securities analysts and other interested parties as supplementary measures of performance trends and financial position. BSN medical's non-IFRS measures differ from the non-IFRS measures used by Essity's and may not be comparable to other similarly titled measures pre sented by other companies and therefore have certain limitations as analysis tools. Consequently, they should not be considered in isolation of or as an alternative to BSN

1) Based on net debt as of December 31, 2016. Final takeover of net debt will be based on net debt as of March 31, 2017.
2) Calculated based on exchange rate EUR/SEK 9.456 as of December 31, 2016.
3) Excluding items affecting comparability.
4) Calculated based on exchange rate EUR/SEK 9.456 as of December 31, 2016.
5) Excluding items affecting comparability and including BSN medical's purchase price allocation amortization.
6) Calculated based on exchange rate EUR/SEK 9.456 as of December 31, 2016.
7) Excluding items affecting comparability and including BSN medical's purchase price allocation amortization.

medical's financial information prepared in accordance with IFRS. The information regarding BSN medical presented below is derived from BSN medical's audited financial statements for the financial years 2015 and 2016 as well as BSN medical's internal accounting for the financial years 2015 and 2016.

In the following, certain of the BSN medical performance measures that are deemed most essential by the Company are presented.

Adjusted sales

EURm (unaudited)	2016	2015
Sales	850	866
Phasing	0	–5
Adjusted sales[1)]	**850**	**861**

1) Non-IFRS measure, unaudited (alternative performance measure).

Adjusted sales means sales adjusted due to Venezuela sales phasing, i.e., adjustment from 14 months sales to 12 months sales, but otherwise computed in accordance with IFRS. Adjusted sales is calculated in order to reflect the actual underlying result.

Organic sales

EURm (unaudited)	2016	2015
Adjusted sales	850	861
Exchange rate effects	15	–72
Acquisitions/Divestments	–13	20
Organic sales[1)]	**851**	**809**
Organic sales growth (%)[1)]	**5.3**	**4.4**

1) Non-IFRS measure, unaudited (alternative performance measure).

Organic sales are derived from adjusted sales but excluding exchange rate effects, acquisitions and divestments. It is essential for BSN medical to follow the organic growth separate from exchange rate, acquisitions and divestments. The effect from exchange rate 2015 is due to a material devaluation against the EUR of the currency in Venezuela and further adverse translation effects in the UK and South Africa.

Organic sales growth is sales growth excluding exchange rate effects, acquisitions and divestments. The organic growth rate 2016 was 5.3%.

EBITDA and adjusted EBITDA

EURm (unaudited)	2016	2015
Result from operating activities	75	76
Amortization and depreciation	61	57
Impairment	5	19
Restructuring expenses	23	27
EBITDA[1)]	**164**	**181**
Items affecting comparability	46[2)]	21
Adjusted EBITDA[1)]	**210**	**201**
Adjusted EBITDA margin (%)[1)]	**24.7**	**23.4**

1) Non-IFRS measure, unaudited (alternative performance measure).
2) Including EUR 24.4m related to sale of BSN medical.

EBITDA means income before income taxes and financial income (costs) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets including goodwill. The measurement is a good complement to enable comparison as it shows the underlying cash surplus from operations.

Adjusted EBITDA is calculated as EBITDA adjusted for one-off costs such as costs related to the sale of the BSN medical, certain acquisition and integration projects, the one-off costs for a material cost reduction program to fund growth investments and one-off costs for an ongoing change process ("**Items affecting comparability**"). The measurement is a good complement to enable comparison as it shows the underlying cash surplus from operations excluding Items affecting comparability.

Adjusted EBITDA margin refers to adjusted EBITDA in percent of adjusted sales.

Adjusted EBITA

EURm (unaudited)	2016	2015
Adjusted EBITDA[1)]	210	201
Depreciation	–13	–13
Adjusted EBITA[1)]	**197**	**189**
Adjusted EBITA margin (%)[1)]	**23.2**	**21.9**

1) Non-IFRS measure, unaudited (alternative performance measure).

Adjusted EBITA is derived from adjusted EBITDA and by subtracting the depreciation of tangible assets and other one-off depreciation, but excluding depreciation related to purchase price allocation. The measurement is a good complement to enable earnings comparison with other companies regardless of whether business activities were based on acquisitions or organic growth.

Adjusted EBITA margin refers to adjusted EBITA in percent of adjusted sales.

Adjusted operating profit

EURm (unaudited)	2016	2015
Adjusted EBITA[1)]	197	189
Amortization	–11	–9
BSN medical's purchase price allocation amortization	–41	–44[2)]
Adjusted operating profit[1)]	**145**	**137**
Adjusted operating profit margin (%)[1)]	**17.1**	**15.9**

1) Non-IFRS measure, unaudited (alternative performance measure).
2) Including EUR 8m related to impairment of intangibles and other purchase price allocation adjustments.

Adjusted operating profit is derived from adjusted EBITA and by subtracting amortization and purchase price allocated amortization. The measurement is a key ratio for a better understanding of earnings performance of the operation including effects from cost in relation to acquisitions.

Adjusted operating profit margin refers to adjusted operating profit in percent of adjusted sales.

Certain other financial information in respect of BSN medical

Research and development expenses

The table below shows BSN medical's research and development expenses, including as a percentage of net sales, during the financial years 2015 and 2016.

EURm (unaudited)	Jan–Dec 2016	Jan–Dec 2015
Research and development costs	–16	–19
Research and development costs, % of net sales	1.9%	2.2%

Tangible assets

As of March 31, 2017, BSN medical's tangible assets amounted to EUR 147m (SEK 1,404m), mainly comprising of land, buildings and machines. As of March 31, 2017, BSN medical owned and leased approximately 15 facilities in 11 countries.

Other significant changes

Bonus issue

On April 5, 2017, the Annual General Meeting of Essity resolved on a bonus issue of SEK 2,350m (including the issuance of 64,589,523 Class A shares and 637,747,966 Class B shares). The bonus issue was registered with the Swedish Companies Registration Office on April 27, 2017, which resulted in an increase of the Company's share capital by SEK 2,350m.

Allocation of net debt between Essity and SCA

In December 2016, Essity and SCA agreed on a reallocation of the SCA Group's (including Essity) net debt as of December 31, 2016. Of the SCA Group's total net debt of SEK 35,361m, it was agreed to allocate SEK 30,361m to Essity and SEK 5,000m to SCA as of December 31, 2016. In addition, it was agreed that SCA would settle the balance as of the date of the completion of the distribution of the Essity shares on or around the first day of trading in the Essity shares on Nasdaq Stockholm, as adjusted for the actual cash flow pertaining to SCA for the period from January 1, 2017 until the distribution of the Essity shares. The reallocation of SCA's portion of the SCA Group's net debt (i.e., SEK 5,000m, together with cash flow adjustments from January 1, 2017 until the distribution of the Essity shares on or around the first day of trading in the Essity shares) will be accomplished based on the following.

- As of March 31, 2017, SCA's internal net debt to Essity was SEK 564m (including cash flow adjustments for the period from January 1, 2017 until and including March 31, 2017).[1)]
- On April 12, 2017, SCA paid SEK 4,214m in dividends to its shareholders pursuant to the resolution adopted at SCA's Annual General Meeting. The dividend was financed with an internal loan from Essity to SCA in the amount of SEK 214m (through the cash-pooling arrangement that is legally incorporated within the Group)[2)] and by a loan from Svenska Handelsbanken of SEK 4,000m, which is guaranteed by Essity;
- On May 16, 2017, SCA made an unconditional shareholder contribution to Essity of SEK 598m, which was financed in full with an internal loan from Essity to SCA (through the cash-pooling arrangement);
- On or around the first day of trading in the Essity shares on Nasdaq Stockholm, SCA will repay the loan to Svenska Handelsbanken, amounting to SEK 4,000m. The guarantee provided by Essity under SCA's loan from Svenska Handelsbanken, as well as SCA's guarantees in favour of Essity's financing agreements, will be automatically terminated (see "*Description of certain main credit agreements and loans*" in the section entitled "*Operational and financial review*").
- SCA will also repay its then outstanding debt to Essity, which will result in an increase of Essity's cash as well as in a decrease of its current financial receivables. Based on SCA's net debt as of March 31, 2017 and the net debt reallocation agreement, but without taking into account the cash flow adjustment from April 1, 2017 until the first day of trading in the Essity shares, the amount to be paid by SCA to Essity amounts to SEK 1,376m.[3)]

Other than what has been stated above, no significant change in the financial or trading position of Essity has occurred since March 31, 2017.

See "*Related-party transactions*" in the section entitled "*Legal considerations and supplementary information*" for an additional description of related-party transactions between Essity and SCA.

Significant trends

Shifts in global demographics such as population growth – primarily due to a lower infant mortality rate and increased longevity – and higher disposable income point to continued favorable growth for the personal care and tissue markets. The effect of higher disposable income is that more people prioritize hygiene and health when food and housing needs have been, or are in the process of being, satisfied, which leads to an increased demand for Essity's products in emerging markets. Growth is also occurring in mature markets owing to lifestyle changes and innovations that lead to increased use of hygiene and health products. See "*Market trends and drivers*" in the section entitled "*Market and business description*".

During the first quarter of 2017, the European and North American markets for incontinence products in the healthcare sector displayed higher demand, but with continued price pressure as a result of fierce competition. The European and North American retail markets for incontinence products showed high growth. Emerging markets noted higher demand for incontinence products. The global market for incontinence products was characterized by a continued high level of competition. In Europe, demand for baby care was stable, while a slight decline was reported for feminine care. 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. The European market for consumer tissue demonstrated 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.

1) As of December 31, 2016, SCA's internal net debt amounted to SEK 188m, which is to be deducted from the allocated net debt of SEK 5,000m.
2) Essity, through its wholly-owned subsidiary AB SCA Finans, acts as internal bank between the Group and the SCA Group until the distribution of the Essity shares. Through this cash-pooling arrangement, SCA is entitled to borrow funds from Essity, thereby increasing its internal net debt to Essity. The internal borrowing is recorded as current financial receivables for Essity.
3) Consisting of the SCA's net debt as of March 31, 2017, of SEK 564m, and the additional loans from Essity to SCA of SEK 214m and SEK 598m, respectively.

Board of Directors, Executive Management and auditor

Board of Directors

According to Essity's Articles of Association, the Board of Directors shall comprise of not less than three and not more than twelve members, with not more than five deputies, elected by the shareholders at the General Meeting. In addition and by law, Essity's employees are entitled to appoint employee representatives. The Board of Directors currently comprises ten members re-elected by the Annual General Meeting on April 5, 2017 for a term of office extending until the close of the 2018 Annual General Meeting, with no deputies, and three ordinary members with three deputies appointed by employee organizations.

Essity's Board of Directors is composed by SCA's Board of Directors elected by the shareholders on SCA's 2017 Annual General Meeting. The Nomination Committee for SCA's Annual General Meeting presented a proposal for the Board of Directors of SCA, with the intention that the Board Members should constitute the Board of Directors of Essity following the distribution and, consequently, for new members of SCA's Board of Directors to be appointed. The Board Members Ewa Björling, Maija-Liisa Friman, Magnus Groth, Johan Malmquist, Louise Svanberg and Lars Rebien Sørensen will resign from their respective assignments in the Board of SCA as from the first day of trading of Essity shares.

Name	Assignment	Board Member in Essity since	Board Member in SCA since[1)]	Independent	Audit Committee	Remuneration Committee	Shareholding[4)]
Pär Boman	Chairman	2016	2010	No[2)]	Yes	Yes	1,000 A shares
Ewa Björling	Board Member	2016	2016	Yes			–
Maija-Liisa Friman	Board Member	2016	2016	Yes			–
Annemarie Gardshol	Board Member	2016	2015	Yes			1,200 B shares
Magnus Groth	Board Member and President and CEO	2016	2015	No[3)]			21,000 B shares
Louise Svanberg	Board Member	2016	2012	Yes		Yes	15,000 B shares
Johan Malmquist	Board Member	2016	2016	Yes			4,000 B shares
Barbara Milian Thoralfsson	Board Member	2016	2006	Yes	Yes		–
Bert Nordberg	Board Member	2016	2012	Yes	Yes	Yes	5,000 B shares
Lars Rebien Sørensen	Board Member	2017	2017	Yes			–
Tina Elvingsson	Board Member[*)]	2017	–	–			225 B shares
Örjan Svensson	Board Member[*)]	2017	2005	–			75 B shares
Niclas Thulin	Board Member[*)]	2017	–	–			–
Niklas Engdahl	Deputy Board Member[*)]	2017	–	–			–
Martin Ericsson	Deputy Board Member[*)]	2017	–	–			200 A shares and 200 B shares
Paulina Halleröd	Deputy Board Member[*)]	2017	2013	–			370 B shares

*) Employee representative.
1) The dates refer to the year in which the Board Members were elected as Board Members of SCA.
2) Not independent in relation to major shareholders, under the assumption that the SCA's distribution of shares in Essity was completed with record date on April 28, 2017.
3) Not independent in relation to the Company and Executive Management.
4) Information on own holdings and holdings of related persons and affiliated companies under the assumption that the SCA's distribution of shares in Essity was completed with record date on April 28, 2017, i.e., refers to the shareholding in SCA as per the said date. The Board Member's respective shareholding in the Company as per the first day of trading of the shares in Essity, which is estimated to be June 15, 2017, may differ from the shareholding reported above.

Pär Boman

Born 1961. Chairman and member of the Board since 2016 (Board Member in SCA since 2010). Chairman of the Remuneration Committee and member of the Audit Committee.

Principal education and professional experience: Engineer, Economist and Honorary Doctor of Economics. Former President and CEO of Svenska Handelsbanken AB. Previously also held other senior positions within Handelsbanken.

Other current assignments/positions: Chairman of the Board of Svenska Handelsbanken AB. Deputy Chariman of the Board of AB Industrivärden and Board Member of Hulabo AB, International Chamber of Commerce Sverige, Jan Wallanders och Tom Hedelius Stiftelse, Skanska AB and Tore Browaldhs Stiftelse.

Previous assignments/positions (past five years): Chairman of the Board of Anglo–Swedish Trade Service AB. Board Member of Affärsbankernas Serviceaktiebolag, Brittish-Swedish Chambers of Commerce and Svenska Bankföreningen, Näringsverksamhet. Member of the Advisory Board of Dutch Chamber of Commerce in Sweden. Member of the Council of Stockholm Chamber of Commerce and Finnish-Swedish Chamber of Commerce.

Holding: 1,000 shares of Class A.

Independent in relation to the Company and Executive Management, but not in relation to the Company's major shareholders.

Ewa Björling

Born 1961. Board Member since 2016 (in SCA since 2016).

Principal education and professional experience: Dentistry, Doctor of Medical Science and Associate Professor, Karolinska Institutet, Sweden. Former member of the Swedish Parliament and the Boards of the Swedish National Insurance Office and the Swedish International Development Cooperation Agency (SIDA).

Other current assignments/positions: Board Member of Biogaia AB, Mobilaris AB and Ullr AB.

Previous assignments/positions (past five years): Swedish Minister for Trade and Minister for Nordic Cooperation.

Holding: –

Independent in relation to the Company and Executive Management as well as in relation to the Company's major shareholders.

Maija-Liisa Friman

Born 1952. Board Member since 2016 (in SCA since 2016).

Principal education and professional experience: Master of Science in Engineering, Helsinki University of Technology, Finland. Previously CEO of Aspocomp Group Plc, President of Vattenfall Oy and Gyproc Oy.

Other current assignments/positions: Chairman of the Board of Helsinki Deaconess Institute. Board Member of Finnair Oyj and the Securities Market Association. Partner in Boardman Oy.

Previous assignments/positions (past five years): Chairman of the Board of Ekokem Oyj. Vice Chairman of the Board of Metso Oyj and of Neste Oyj. Board Member of LKAB, Rautaruukki, Talvivaara Mining Company Plc and TeliaSonera.

Holding: –

Independent in relation to the Company and Executive Management as well as in relation to the Company's major shareholders.

Annemarie Gardshol

Born 1967. Board Member since 2016 (in SCA since 2015).

Principal education and professional experience: Master of Science in Engineering, Chalmers University of Technology, Sweden. Previously held various senior positions within Gambro AB, including Head of Research and Development and Global Marketing Director.

Other current assignments/positions: Board Member of Gardshol Consulting AB. Deputy Board Member of Gardshol Holding AB. CEO of PostNord Strålfors Group AB.

Previous assignments/positions (past five years): Board Member of Bygghemma Group Nordic AB, Etac AB and Ortivus AB.

Holding: 1,200 shares of Class B.

Independent in relation to the Company and Executive Management as well as the Company's major shareholders.

Magnus Groth

Born 1963. Board Member and President and CEO since 2016 (in SCA since 2015).

See "*Executive Management*" below.

Independent in relation to the Company's major shareholders, but not in relation to the Company and Executive Management.

Louise Svanberg

Born 1958. Board Member since 2016 (in SCA since 2012). Member of the Remuneration Committee.

Principal education and professional experience: Master of Science in Economics, Stockholm University, Sweden. Previously held various management positions within EF, including President and Chairman of the Board.

Other current assignments/positions: Board Member of Careers Australia Group. Member of Advisory Board for Cue Ball Capital, Boston, and Member of MPM Bio-tech, investment committee.

Previous assignments/positions (past five years): –

Holding: 15,000 shares of Class B.

Independent in relation to the Company and Executive Management as well as the Company's major shareholders.

Johan Malmquist

Born 1961. Board Member since 2016 (in SCA since 2016).

Principal education and professional experience: Master of Science in Economics, Stockholm School of Economics, Sweden. Previously President of Getinge AB and Board Member of Capio AB.

Other current assignments/positions: Chairman of the Board of AB Tingstad Papper and Arjo AB. Board Member of the Chalmers University of Technology Foundation, Elekta AB, Getinge AB, Henry Dunkers Förvaltningsaktiebolag, Medvisor AB, Mölnlycke AB and Trelleborg AB.

Previous assignments/positions (past five years): –

Holding: 4,000 shares of Class B.

Independent in relation to the Company and Executive Management as well as the Company's major shareholders.

Barbara Milian Thoralfsson

Born 1959. Board Member since 2016 (in SCA since 2006). Chairman of the Audit Committee.

Principal education and professional experience: Master of Business Administration Marketing & Finance, Columbia University, US, and Bachelor of Arts in Psychology, Duke University, US. Previously President of Midelfart & Co AS and NetCom ASA. Currently Industry advisor to EQT.

Other current assignments/positions: Chairman of the Board of ColArt Holdings Ltd. Board Member of G4S Plc, Hilti AG and Norfolier GreenTec AS.

Previous assignments/positions (past five years): Board Member of AB Electrolux, Cable & Wireless Plc, Orkla ASA and Telenor ASA.

Holding: –

Independent in relation to the Company and Executive Management as well as the Company's major shareholders.

Bert Nordberg

Born 1956. Board Member since 2016 (in SCA since 2012). Member of the Audit Committee and the Remuneration Committee.

Principal education and professional experience: Electrical Engineering, Malmö Tekniska Läroverk, Sweden, and Swedish Marines from Berga, Sweden, and International Management Marketing and Finance, INSEDA University, France.

Other current assignments/positions: Chairman of the Board of Innovativa Solutions Sweden AB, Sigma Connectivity AB and Vestas Wind Systems A/S. Board Member of AB Electrolux, Axis AB, Connectivity Spring AB, LU Holding AB, Rothschild Nordic AB, SAAB AB and Skistar AB.

Previous assignments/positions (past five years): Chairman of the Board of Ideonfonden AB and Sony Mobile Communications AB. Board Member of Abecede AB, BlackBerry Ltd, Materials Technology Economy Know-how Sweden AB, NOTE AB and United Influencers Media Group AB. President and CEO of Sony Ericsson.

Holding: 5,000 shares of Class B.

Independent in relation to the Company and Executive Management as well as the Company's major shareholders.

Lars Rebien Sørensen

Born 1954. Board Member since 2017 (in SCA since 2017).

Principal education and professional experience: Master of Science in Forestry, Copenhagen University, Denmark, and Bachelor in International Economics, Copenhagen Business School, Denmark. Previously Board Member of Bertelsmann and SAS.

Other current assignments/positions: Vice Chairman of the Board of Carlsberg A/S. Board Member of Jungbunzlauer, the Novo Nordisk Foundation and Thermo Fisher Scientific Inc.

Previous assignments/positions (past five years): Board Member of Dong Energy. Member of the Board of Representatives of Danish National Bank. President and CEO of Novo Nordisk A/S.

Holding: –

Independent in relation to the Company and Executive Management as well as the Company's major shareholders.

Tina Elvingsson

Born 1967. Board Member (employee representative) since 2017.

Principal education and professional experience: Quality Technician at SCA Hygiene Products AB.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: 225 shares of Class B.

Örjan Svensson

Born 1963. Board Member (employee representative) since 2017.

Principal education and professional experience: Senior Industrial Safety Representative at SCA Hygiene Products AB.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: 75 shares of Class B.

Niclas Thulin

Born 1976. Board Member (employee representative) since 2017.

Principal education and professional experience: Infrastructure Developer at SCA Hygiene Products AB.

Other current assignments/positions: Limited Partner in TH Tryck & Reklam Kommanditbolag.

Previous assignments/positions (past five years): Board Member of Nya Nyttokonst butik och galleri Uddevalla ekonomisk förening.

Holding: –

Niklas Engdahl

Born 1980. Deputy Board Member (employee representative) since 2017.

Principal education and professional experience: Bachelor of Science in Mechanical Engineering, University West, Sweden. RST Process Engineer at SCA Hygiene Products AB.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: –

Martin Ericsson

Born 1968. Deputy Board Member (employee representative) since 2017.

Principal education and professional experience: Master of Science in Engineering, Chalmers University of Technology, Sweden. Project Engineer Electrical/Automation at SCA Hygiene Products AB.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: 200 shares of Class A and 200 shares of Class B.

Paulina Halleröd

Born 1967. Deputy Board Member (employee representative) since 2017.

Principal education and professional experience: Master of Science in Engineering, Chalmers University of Technology, Sweden. Laboratory Manager Incontinence Care, SCA Hygiene Products AB.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: 370 shares of Class B.

Executive Management

Essity's Executive Management is composed by former members of SCA's Executive Management.

Name	Position	Member of Essity's Executive Management since	Member of SCA's Executive Management since	Shareholding[1]
Magnus Groth	President and CEO	2017	2011	21,000 B shares
Fredrik Rystedt	Executive Vice President and CFO. Head of Group Function Finance	2017	2014	10,000 B shares
Don Lewis	President, AfH Professional Hygiene	2017	2012	14,942 SCA ADR
Volker Zöller	President, Consumer Goods Europe	2017	2015	–
Pablo Fuentes	President, Latin America	2017	2015	9,448 B shares
Margareta Lehmann	President, Incontinence Care	2017	2012	12,414 B shares
Georg Schmundt-Thomas	President, Global Hygiene Category	2017	2016	–
Donato Giorgio	President, Global Hygiene Supply Tissue	2017	2015	2,568 B shares
Ulrika Kolsrud	President, Global Hygiene Supply Personal Care	2017	2015	3,653 B shares
Anna Sävinger Åslund	Senior Vice President, Group Function Human Resources	2017	2015	3,275 B shares
Joséphine Edwall-Björklund	Senior Vice President, Group Function Communications	2017	2012	5,017 B shares
Kersti Strandqvist	Senior Vice President, Group Function Sustainability and Public Affairs	2017	2010	12,447 B shares
Mikael Schmidt	Senior Vice President, Group Function Legal Affairs, General Counsel	2017	2012	19,000 B shares
Robert Sjöström	Senior Vice President, Group Function Strategy and Business Development (incl. Global Business Services and IT)	2017	2009	16,000 B shares

[1] Information on own holdings and holdings of related persons and affiliated companies under the assumption that the SCA's distribution of shares in Essity was completed with record date on April 28, 2017, i.e., refers to the shareholding in SCA as per the said date. The Executive Management's respective shareholding in the Company as per the first day of trading of the shares in Essity, which is estimated to be June 15, 2017, may differ from the shareholding reported above.

Magnus Groth

Born 1963. President and CEO since 2017 (in SCA since 2011).

Principal education and professional experience: Master of Business Administration, Stockholm School of Economics, Sweden, and Master of Science in Mechanical Engineering, Royal Institute of Technology, Sweden. Previously President of Studsvik AB (publ) and Senior Vice President of Vattenfall AB.

Other current assignments/positions: Board Member of Acando AB and Vinda, Hong Kong.

Previous assignments/positions (past five years): Board Member of Pilum AB.

Holding: 21,000 shares of Class B.

Fredrik Rystedt

Born 1963. Executive Vice President and CFO. Head of Group Function Finance since 2017 (in SCA since 2014).

Principal education and professional experience: Master of Science in Economics, Stockholm School of Economics, Sweden. Previously CFO of AB Electrolux, Nordea AB and Sapa AB.

Other current assignments/positions: Board Member of Teracom Group AB and Vinda, Hong Kong.

Previous assignments/positions (past five years): Board Member of Gunnebo Industrier AB and Svenskt Industriflyg AB. Deputy Board Member of Affärsbankernas Serviceaktiebolag. Vice President of Nordea Bank AB.

Holding: 10,000 shares of Class B.

Don Lewis

Born 1961. President, AfH Professional Hygiene since 2012 (in SCA since 2002).

Principal education and professional experience: Bachelor of Science in Business Administration, Youngstown State University, US. Previously Executive Vice President at Encore Paper and Sales Manager at Fort Howard Paper.

Other current assignments/positions: –

Previous assignments/positions (past five years): Board Member of Productos Familia S.A.

Holding: 14,942 SCA ADR.

Volker Zöller

Born 1967. President, Consumer Goods since 2015 (in SCA since 1994).

Principal education and professional experience: Bachelor of Science in Business Administration, Berufsakademie Mannheim, Germany. Previously controller for Pepperl & Fuchs GmbH Mannheim.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: –

Pablo Fuentes

Born 1973. President, Latin America since 2015 (in SCA since 2006).

Principal education and professional experience: Bachelor of Science in Chemical Engineering, Universidad Iberoamericana, Mexico, and Master of Business Administration, Harvard University, US. Previously held a number of senior positions within SCA, including COO SCA Mexico and Central America of SCA Mexico y Centro America and CFO Americas Business Unit of SCA Americas.

Other current assignments/positions: Board Member of Productos Familia S.A.

Previous assignments/positions (past five years): –

Holding: 9,448 shares of Class B.

Margareta Lehmann

Born 1958. President, Incontinence Care since 2012 (in SCA since 1983).

Principal education and professional experience: Master of Science in Economics, Gothenburg University, Sweden. Previously held various senior positions within SCA, including Regional Director SCA Tissue Europe, AFH North West Europe and Mölnlycke, including International Product Manager, Category AFH.

Other current assignments/positions: –

Previous assignments/positions (past five years): Board Member of Sanitec Oy.

Holding: 12,414 shares of Class B.

Georg Schmundt-Thomas

Born 1962. President, Global Hygiene Category since 2016 (in SCA since 2016).

Principal education and professional experience: Doctor of Philosophy in English, Northwestern University, US. Previously held a number of senior positions within Procter & Gamble, including Vice President and Brand Franchise Leader Duracell and Vice President Special Assignment.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: –

Donato Giorgio

Born 1974. President, Global Hygiene Supply Tissue since 2015 (in SCA since 2009).

Principal education and professional experience: Master of Science in Engineering, Politecnico di Bari, Italy. Previously held various senior positions within Procter & Gamble, including Operations Manager Beauty Care and Operations Manager Tissue.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: 2,568 shares of Class B.

Ulrika Kolsrud

Born 1970. President, Global Hygiene Supply Personal Care since 2015 (in SCA since 1995).

Principal education and professional experience: Master of Science in Engineering, Chalmers University of Technology, Sweden. Previously held various senior positions within SCA, including Vice President R&D Personal Care and Global Product Director Baby.

Other current assignments/positions: Member of the Supervisory Board of UcM Joint Venture.

Previous assignments/positions (past five years): –

Holding: 3,653 shares of Class B.

Anna Sävinger Åslund

Born 1969. Senior Vice President, Group Function Human Resources since 2015 (in SCA since 2001).

Principal education and professional experience: Human Resource Management Degree, Linköping University. Previously Human Resource Manager at AstraZeneca.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: 3,275 shares of Class B.

Joséphine Edwall-Björklund

Born 1964. Senior Vice President, Group Function Communications since 2012 (in SCA since 2012).

Principal education and professional experience: Bachelor of Science in Communications, Jönköping University, Sweden, and Advanced Management Program, Stockholm School of Economics, Sweden. Previously held various Communication positions within Ericsson.

Other current assignments/positions: –

Previous assignments/positions (past five years): –

Holding: 5,017 shares of Class B.

Kersti Strandqvist

Born 1963. Senior Vice President, Group Function Sustainability and Public Affairs since 2010 (in SCA since 1997).

Principal education and professional experience: Master of Science in Chemistry, Technology Licentiate, Chalmers University of Technology, Sweden. Previously served as Board Member of Swedish Match AB, and also held various senior positions within SCA, including Vice President Category Feminine Care and Category Director Baby Care.

Other current assignments/positions: Board Member of SJ AB.

Previous assignments/positions (past five years): Board Member of Telia Company AB.

Holding: 12,447 shares of Class B.

Mikael Schmidt

Born 1960. Senior Vice President, Group Function Legal Affairs, General Counsel since 2012 (in SCA since 1992).

Principal education and professional experience: Masters of Laws, Uppsala University, Sweden. Previously held various positions within the legal profession, including Associate Judge and Corporate Counsel.

Other current assignments/positions: Deputy Board Member of Vinda, Hong Kong.

Previous assignments/positions (past five years): Chairman of the Board of Svenskt Industriflyg AB.

Holding: 19,000 shares of Class B.

Robert Sjöström

Born 1964. Senior Vice President, Group Function Strategy and Business Development (incl. Global Business Services and IT) since 2009 (in SCA since 2009).

Principal education and professional experience: Master of Science in Economics, Uppsala University, Sweden, and Master of Business Administration, Stockholm School of Economics, Sweden. Previously President of Global Hygiene Category in SCA.

Other current assignments/positions: Board Member of Asaleo Care Ltd and Productos Familia S.A.

Previous assignments/positions (past five years): Board Member of Buildor AB and Ljung & Sjöberg AB.

Holding: 16,000 shares of Class B.

Other information concerning the Board of Directors and Executive Management

All members of the Board of Directors and Executive Management can be reached through the Company's address, P.O. Box 200, SE-101 23 Stockholm, Sweden.

There are no family ties between any of the members of the Board of Directors and/or Executive Management. No Board Member or senior executive has been convicted in any case involving fraudulence during the past five years. None of them have been involved in any bankruptcy, receiverships or liquidation during the past five years in the capacity of a member of administrative, management or supervisory bodies or a senior executive, save for Barbara Milian Thoralfsson who was Board Member and, together with closely related parties, owner of 85% of Longa Industrier AS which, as well as its subsidiary Norfolier, was placed into bankruptcy in 2012. The bankruptcy was concluded in 2014.

Except as described below, no incrimination and/or sanctions have been issued by statutory or regulatory authorities (including designated professional bodies) during the past five years against any of the members of the Board or Executive Management. Nor, during the past five years, has any member of the Board or Executive Management been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Margareta Lehmann and Don Lewis respectively have been charged a fee by the Swedish Financial Supervisory Authority (Finansinspektionen) pursuant to the Act on Reporting Obligations for Certain Holdings of Financial Instruments (*lagen (2000:1087) om anmälningsskyldighet för vissa innehav av finansiella instrument*) with SEK 5,000 and SEK 20,000 respectively for failure to notify on changes in their holdings of shares and ADSs in SCA, within the prescribed period of time. The fees were attributable to changes in holdings in 2012. Bert Nordberg has been charged with a tax surcharge with SEK 4,000, regarding the assessment period of 2015. In April 2017, Pär Boman was notified of suspicion of receiving bribes related to hunting trips organized by Holmen AB which took place during his time as Group Chief Executive of Handelsbanken.

No member of the Board or Executive Management has any private interests which might conflict with their duties to Essity. However, as stated above, a number of the members of the Board and Executive Management will have a financial interest in Essity through shareholdings and holdings of ADSs in Essity.

Auditor

Ernst & Young AB (P.O. Box 7850, SE-103 99 Stockholm, Sweden) has been the Company's auditor since the 2016 Annual General Meeting. The most recent auditor election was at the 2017 Annual General Meeting, when Ernst & Young was re-elected for the period until the end of the 2018 Annual General Meeting, with authorized public accountant Hamish Mabon as the main responsible auditor. Hamish Mabon is an authorized public accountant and member of FAR (professional institute for authorized public accountants in Sweden). Ernst & Young has audited the Group's restated financial statement for the financial year 2016 on p. F-33 and onwards in the section entitled "*Historical financial information*" and has reviewed Essity's interim report for the period January–March 2017 on p. F-4 and onwards in the section entitled "*Historical financial information*".

PricewaterhouseCoopers AB with authorized public accountants Anna-Clara af Ekenstam and Mikael Eriksson as main responsible auditor in 2014 and 2015 respectively, has audited the SCA Group's financial statements for the financial years 2014 and 2015, which included the hygiene business. Essity's annual reports for the financial years 2014 and 2015 has been audited by authorized public accountant Michael Lindengren from PricewaterhouseCoopers AB. Anna-Clara af Ekenstam, Mikael Eriksson and Michael Lindengren are authorized accountants and members of FAR (professional institute for authorized public accountants in Sweden). PricewaterhouseCoopers AB, with Mikael Eriksson as auditor in charge, has audited the Group's restated financial statements for the years 2014-2015 on p. F-33 and onwards in the section entitled "*Historical financial information*".

Corporate governance

Corporate governance within Essity

The governance of Essity is based on the Swedish Companies Act, Essity's Articles of Association, the Swedish Corporate Governance Code (the "**Code**") and Nasdaq Stockholm's Rule Book for Issuers as well as other relevant laws and regulations. The Code is based on the "comply or explain" principle, meaning that companies are not obliged to at all times apply every rule in the Code, but are allowed the freedom to choose alternative solutions which they feel are better in their particular circumstances, provided they report every deviation, describe the alternative solution and explain the reasons for the deviation. Essity will apply the Code without any deviation as from the listing on Nasdaq Stockholm.

General Meeting

Introduction
Pursuant to the Swedish Companies Act (*aktiebolagslagen (2005:551)*), the General Meeting is the supreme decision-making body in a Swedish limited liability company, and shareholders exercise their voting rights at such meetings. The Annual General Meetings of Essity are held annually before the end of June. In addition to the Annual General Meeting, Extraordinary General Meetings can be convened when required. The General Meetings of Essity are held either in the municipality of Stockholm, where the Company's registered office is situated, or in the municipality of Gothenburg.

At the General Meeting, the shareholders of Essity resolve on several matters, including confirmation of income statements and balance sheets, the disposition of the Company's profit or loss, discharge of liability for the members of the Board and the CEO, composition of the Nomination Committee, election of members of the Board (including the Chairman of the Board) and auditor, remuneration to the members of the Board and auditor, guidelines for remuneration to the CEO and other senior executives. The shareholders of Essity also resolve on other matters that are important to the Company, for example any changes of the Articles of Association, at the General Meeting.

Notice convening the General Meeting
Pursuant to Essity's Articles of Association, notices convening General Meetings shall be issued through announcement in the Swedish National Gazette (Post- och Inrikes Tidningar), as well as on the Company's website (www.essity.se). Announcement to the effect that a notice convening a General Meeting has been issued shall be made in the newspapers Dagens Nyheter and Svenska Dagbladet. Once Essity is listed, a press release in Swedish and English with the notice in its entirety will be issued ahead of each General Meeting.

Right to attend General Meetings
All shareholders who are directly recorded in the Company's share register maintained by Euroclear Sweden five weekdays (Saturdays included) prior to the General Meeting and who have notified the Company of their intention to participate in the General Meeting not later than the date indicated in the notice of the General Meeting, are entitled to attend the General Meeting and vote for the number of shares they hold.

In addition to notifying the Company, shareholders whose shares are nominee registered through a bank or other nominee must request that their shares are temporarily registered in their own names in the register of shareholders maintained by Euroclear Sweden, in order to be entitled to participate in the General Meeting. Shareholders should inform their nominees well in advance of the record date.

Shareholders may attend Essity's General Meetings in person or by proxy and may be accompanied by a maximum of two assistants. It will normally be possible for shareholders to register for the General Meeting in several different ways, as indicated in the notice of the meeting.

Shareholder initiatives
Any shareholder of the Company who wishes to have a matter dealt with at an Annual General Meeting must submit a written request to the Board to that effect. The request must have been received by the Company not less than seven weeks prior to the Annual General Meeting, so that the matter may be included in the notice.

Nomination Committee

Under the 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 Chairman at General Meetings, elections of 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, and remuneration for committee work), remuneration to the auditor, and to the extent deemed necessary, proposals for amendments to the instruction for the Nomination Committee. At the Annual General Meeting held on April 5, 2017, the following instruction for the Nomination Committee was adopted to apply until further notice, provided that the Company is listed on Nasdaq Stockholm:

The Nomination Committee shall be composed of representatives of the four largest registered shareholders in terms of voting rights according to the shareholders' register[1] maintained by the Company as of the last banking day of August, and of the Chairman of the Board of Directors. The Chairman of the Board of Directors is to convene the first meeting of the Nomination Committee. The member representing the largest shareholder in terms of voting rights shall be appointed Chairman of the Nomination Committee. The Chairman of the Board shall not be Chairman of the Nomination Committee. If deemed important, due to later changes in the ownership structure, the Nomination Committee is authorized to appoint one or two additional members among the shareholders who in terms of voting rights are the shareholders next in turn. The total maximum number of members shall be seven. Should a member resign from the Nomination Committee before its work is completed and, if the Nomination

[1] Euroclear Sweden is responsible for the Company's share register.

Committee considers it desirable, a "substitute" member shall be appointed to represent the same shareholder or, if the shareholder is no longer one of the largest shareholders in terms of voting rights, the largest shareholder in terms of voting rights next in turn. Changes in the composition of the Nomination Committee shall be made public immediately.

The composition of the Nomination Committee is to be announced by Essity no later than by six months prior to the Annual General Meeting. Remuneration shall not to be paid to the members of the Nomination Committee. Any costs for the work of the Nomination Committee shall be borne by Essity. The term of office for the Nomination Committee ends when the composition of the following Nomination Committee has been announced. The Nomination Committee shall propose the following: the Chairman of the General Meeting, the Board of Directors, the Chairman of the Board of Directors, remuneration to the Board of Directors individually specified for the Chairman and each of the other directors including remuneration for committee work, auditor and remuneration to the auditor, and, to the extent deemed necessary, amendments to this instruction.

Board of Directors

Composition and independence

The Board of Directors has overall responsibility for the Company's organization and administration through regular monitoring of the business and by ensuring the appropriateness of the organization, management team, guidelines and internal control. The Board approves Essity's strategies and targets, and decides on major investments, acquisitions and divestments of operations, among other matters. According to Essity's Articles of Association, the Board of Directors shall comprise no less than three and no more than twelve members elected by the Annual General Meeting with no more than five deputies. In addition, the Board shall include three members and three deputies appointed by the employees. Essity's Articles of Association contain no provisions regarding appointment or dismissal of Board Members or amendments to the Articles. The Board of Directors currently consist of ten Board Members, with no deputies, and three employee representatives with three deputies.

According to the Code, a majority of the Board Members appointed by the General Meeting must be independent in relation to the Company and its Executive Management. This does not apply for any employee representatives. To determine whether a member of the Board is independent, all circumstances should be considered that may put into question the independence of a member of the Board in relation to the Company or Executive Management, for instance if the Board Member was recently employed by the Company or an affiliated company. No more than one Board Member elected by the General Meeting may be a member of the Executive Management of the Company or a subsidiary. At least two of the Board Members that are independent in relation to the Company and the Executive Management must also be independent in relation to the major shareholders of the Company. To evaluate a Board Member's independence, the extent of the Board Member's direct or indirect relation to the larger shareholders should be taken into consideration. A major shareholder, according to the Code, is a shareholder that directly or indirectly controls 10% or more of the shares or votes in the Company.

The Board of Directors' assessment of the independence of the Board Member in relation to the Company, its management and major shareholders are presented in "*Board of Directors*" in the section entitled "*Board of Directors, Executive Management and auditor*". Besides Magnus Groth, who is the President and CEO of the Company, all Board Members are independent in relation to the Company and its management. Eight of these are also independent in relation to the major shareholders of the Company. The Company therefore complies with the requirements of independence in the Code.

The Board's work and responsibility

The duties of the Board of Directors are set forth in the Swedish Companies Act, the Company's Articles of Association and the Code, the latter of which will be applicable for the Company as from the date of listing of the shares on Nasdaq Stockholm. In addition, the work of the Board of Directors is governed by instructions for the Board of Directors, adopted annually by the Board. The instructions for the Board of Directors govern, among other things, the division of work and responsibility between the Board of Directors, its Chairman and the CEO, and specify financial reporting procedures for the CEO. The Board of Directors also adopts instructions for the Board committees.

The Board of Directors' tasks include adopting strategies, business plans, budgets, interim reports, year-end financial statements and policies. The Board of Directors is also required to follow the economic developments and ensure the quality of financial reporting and internal controls including compliance with laws and other rules as well as to evaluate operations on the basis of the objectives and policies set by the Board of Directors. The Board of Directors is also required to establish policies for the Company's behaviour in society in order to ensure its long-term value-generating ability. In addition, the Board of Directors is responsible for regularly evaluating the work of the CEO. Furthermore, the Board of Directors decides on major investments and changes in the organization and operations of the Group. The Chairman of the Board of Directors leads and organizes the work of the Board, ensures that the Board fulfils its tasks and ensures that Board's decisions are implemented. The Chairman of the Board of Directors shall, together with the CEO, monitor the Company's performance and prepare and chair Board meetings. The Chairman is also responsible for ensuring that the Board Members evaluate their work each year and continuously receive the information necessary to effectively perform their tasks. The Chairman represents the Company in relation to its shareholders.

Board committees

According to the Companies Act and the Code, the Board of Directors shall institute an audit committee and a remuneration committee. The Company has established an audit committee and a remuneration committee.

Audit Committee

The tasks of the Company's Audit Committee include monitoring financial reporting and the efficiency of the Company's internal control, internal audit and risk management. The Committee keeps itself informed on the audit, reviews and monitors the impartiality and independence of the auditors. The Audit Committee continuously meets with the auditor to discuss the coordination of the internal control and the external audit. The Committee also assists the Nomination Committee with the preparation of its proposal to the Annual General Meeting regarding the appointment of auditor by, among other things, ensuring that the auditors term of office does not exceed what is allowed in accordance with applicable regulations, procuring an auditor (when applicable) and submitting a recommendation regarding the appointment of auditor to the Nomination Committee. In addition, the Committee submits information to the Board concerning the results of the audit, including how the audit contributed to the reliability of the Company's financial reporting, and so forth in order to fulfill the requirements set out in the EU Audit Regulation and Directive. The Audit Committee sets guidelines for the procurement of services other than auditing services from the Company's auditor and, when applicable, approve such services. Lastly, the Audit Committee evaluates the audit effort and informs the Nomination Committee of the results of the evaluation. The Audit Committee consists of Barbara Milian Thoralfsson (Chairman), Pär Boman and Bert Nordberg.

Remuneration Committee

The Company's Remuneration Committee prepares the Board's motions on issues relating to remuneration principles and 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 Essity's programs for variable remuneration, the application of the Annual General Meeting's resolution on guidelines for remuneration of senior executives and the applicable remuneration structure and remuneration levels in the Group. The Remuneration Committee consists of Pär Boman (Chairman), Bert Nordberg and Louise Svanberg.

Compensation to the Board of Directors

The 2017 Annual General Meeting of the Company resolved that compensations are to be paid with the amount of SEK 2,100,000 to the Chairman of the Board of Directors and SEK 700,000 to each Board Member elected by the General Meeting and who is not employed by the Company. It was also resolved that compensation for committee work shall be paid with the amount of SEK 135,000 to the Chairman and SEK 105,000 to each member of the Remuneration Committee and SEK 330,000 to the Chairman and SEK 250,000 to each member of the Audit Committee. The Board Members of Essity did not receive any compensation for its work as Board Members of the Company during 2016. For information purposes, the table below presents the remuneration paid by SCA for the work as Board Members of SCA in 2016. No compensation was paid to the CEO for his work as Board Member of SCA.

SEK	Board fee SEK 2016	Fee Audit Committee SEK 2016	Fee Remuneration Committee 2016	Total 2016
Pär Boman (Chairman)	2,100,000	200,000	135,000	2,435,000
Ewa Björling	700,000	–	–	700,000
Maija-Liisa Friman	700,000	–	–	700,000
Annemarie Gardshol	700,000	–	–	700,000
Louise Julian Svanberg	700,000	–	105,000	805,000
Johan Malmquist	700,000	–	–	700,000
Bert Nordberg	700,000	200,000	105,000	1,005,000
Barbara Milian Thoralfsson	700,000	250,000	–	950,000
Total	**7,000,000**	**650,000**	**345,000**	**7,995,000**

CEO and Executive Management

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 one Executive Vice President and the Executive Management Team, the work of which is led by the CEO. The Executive Management Team comprises the President and CEO, the CFO, the four Business Unit Presidents and the Presidents of the three Global Units Global Hygiene Category (GHC), Global Hygiene Supply Tissue (GHS-T) and Global Hygiene Supply Personal Care (GHS-PC), and the Senior Vice Presidents of the Group Functions Human Resources, Sustainability, Legal Affairs, Communications, and Strategy and Business Development. Among other things, the division of work between the Board and President is detailed by the working procedures for the Board of Directors and terms of reference issued by the Board of Directors to the President. In consultation with the Chairman of the Board, the President prepares documentation and decision data for the Board's work.

Compensation to Executive Management

No remuneration was paid by Essity to its Executive Management during 2016. The President and CEO as well as the vice president of Essity have, until the separation of Essity from the other business operations conducted by SCA, been employed by SCA whereas certain other members of the Executive Management have employment agreements with subsidiaries of Essity. As concern the members of Executive Management who have previously been employed by SCA, the employment agreements have, as a consequence of the separation, been transferred to Essity on unchanged terms. In general the employment agreements provide for a fixed salary and a variable remuneration. The SCA Group has until the split applied the following principles in respect of the variable remuneration. Variable remuneration for the CEO, Executive Vice Presidents and Business Unit Presidents is maximized to a total of 100% of the fixed salary. For two Business Units Presidents, stationed in Latin America and the US, the maximum outcome is 110–130% and the limit for other senior executives is 90%. The program for variable remuneration is divided into a short-term and a long-term portion. The short-term portion (STI) for the CEO, Executive Vice Presidents and Business Unit Presidents may amount to a maximum of 50% of the fixed salary. For the Business Units Presidents stationed in Latin America and the US the maximum outcome is 60–80% of the fixed salary, while the limit is 40% for other senior executives. The long-term portion (LTI) may amount to a maximum of 50% of the fixed salary. The senior executives are to invest, in the market, half of the variable LTI compensation, after tax withholdings, in shares in SCA. The shares may not be sold before the end of the third calendar year after the purchase. The established LTI goal is based on the performance of SCA's B-share, measured as the total shareholders return index compared with a weighted index of competitors' and consumer companies' share performance over a three-year period. The principles for variable remuneration have been applied also for remuneration relating to the fiscal year 2017. The current LTI will be paid by Essity in cash to eligible Essity employees during the first quarter 2018 and Essity employees will be required to invest 50% of any after-tax variable compensation to acquire Essity shares. These shares will be subject to a lock-up for three calendar years after their acquisition.

For information purposes, the table below presents information on the compensation paid by SCA to the Executive Management for their work in SCA in 2016.[1)]

Remuneration and other benefits during 2016 paid by SCA

SEK	Fixed salary	Variable remuneration[1)]	Other Benefits[4)]	Total
President and CEO Magnus Groth	11,000,000	8,998,000[2)]	87,738	20,085,738
Other senior executives[*)]	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**

*) 14 persons during 2016.

1) Variable remuneration covers the 2016 fiscal year but is paid in 2017. The Board of Directors of SCA has resolved to implement a Long-Term Incentive ("**LTI**") that forms part of the variable remuneration to the CEO and other senior executives of SCA. The LTI portion of the variable remuneration may amount to a maximum of 50% of the fixed salary. The remuneration is paid in cash. The senior executive is to invest half of the variable LTI compensation, after tax withholdings, in SCA shares. The shares may then not be sold before the end of the third calendar year after the purchase of shares in the relevant LTI program. The established LTI goal is based on the performance of the SCA's Class 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.

2) Of which the LTI program accounted for SEK 5,500,000.

3) Of which the LTI program accounted for SEK 29,225,605.

4) Other benefits pertain, in some cases, to a company car, housing and school fees.

Pension costs 2016 paid by SCA[1)]

SEK	
President and CEO Magnus Groth[2)]	4,495,961
Other senior executives[*) 3)]	19,647,387
Total	**24,143,348**

*) 14 persons during 2016.

1) The pension costs pertain to the costs that affected profit for 2016, excluding special payroll tax.

2) Outstanding pension obligations under defined benefit plans amount to SEK 15,741,000.

3) Outstanding pension obligations under defined benefit plans amount to SEK 131,665,322.

1) In the Group's historical financial information presented in this prospectus, the remuneration paid by SCA has affected Essity's result.

Notice period and severance pay

A notice of termination period of two years apply for the CEO if such notice is given by the Company. The CEO has a corresponding right with a notice period of one year. If notice is given by the Company, the CEO is not obligated to serve during the notice period. The agreement does not provide for any severance pay. Between the Company and other senior executives, a notice of termination period of seven to fifteen months normally applies, if such notice is given by the Company. The executive has a corresponding right with a notice of termination period of six to seven months. The executive is normally expected to be available to the Company during the notice period. No agreements provide for any severance pay, save for one executive who is entitled to a severance pay of twelve monthly salaries if notice of termination is given by the Company.

Guidelines

Pursuant to the Swedish Companies Act, the General Meeting shall adopt guidelines for remuneration of the CEO and other senior executives. The following guidelines were adopted at the Annual General Meeting held on April 5, 2017 and apply up until the Annual General Meeting 2018.

Remuneration to senior managers[1)] will be a fixed amount, variable remuneration, additional benefits and pension. The total remuneration is to correspond to market practice and be competitive on the senior manager's field of profession and is to be linked to the manager's responsibility and authority. The variable remuneration is to be maximized and linked to the fixed remuneration based on performance results in relation to the annual and long-term goals respectively. In the event of termination of employment, the notice period should normally be not more than two years should the termination be initiated by the company, and not more than one year, when initiated by the senior manager. Severance pay shall not exist. Pension benefits shall, to the extent possible, solely contain pension benefits determined by charge and entitle the senior manager to pension from the age of 65. The pension is not to be based on variable remuneration. The board of directors shall be entitled to deviate from the adopted guidelines if, in an individual case, there are special reasons for doing so. The guidelines shall not prevail over mandatory conditions under labour law or collective agreements. Neither do they apply to existing agreements.

External audit

The Company's auditor, elected at the Annual General Meeting, examines Essity's six-month report, year end report, annual report and consolidated financial statements, the Board's and President's administration and the annual reports of subsidiaries, and submits an audit report. The audit is performed in accordance with the Swedish Companies Act, the EU Audit Regulation, International Standards on Auditing (ISA) and generally accepted auditing principles in Sweden.

Ernst & Young has been the Company's auditor since the 2016 Annual General Meeting. For further information, see "*Auditor*" in the section entitled "*Board of Directors, Executive Management and auditor*".

Internal control

Introduction

The Board's responsibility for internal governance and control is regulated in the Swedish Companies Act, the Swedish Annual Accounts Act and the Code. The Swedish Annual Accounts Act requires that the Company, each year, describe 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 regulates 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 of Directors

The Board's working procedures stipulates which reports and information of a financial nature shall be submitted to the Board at each scheduled meeting. The President and CEO 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 Essity's external financial reporting is guaranteed via a number of actions and procedures. The President and CEO 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. For further information, see "*External audit*" above.

Risk management

The Company conducts continuous risk assessment to identify and evaluate risks regarding the Company's financial reporting. With regard to financial reporting, the risk that material errors may be made when reporting the Company's financial position and results is considered to be 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.

1) Senior management include the President, Executive Vice President, Business Unit President and equivalent, and the like, as well as the Central Staff Managers.

Control activities and follow-up

Significant instructions and guidelines related to Essity's 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 introduced 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. The control of these processes is assessed through self-evaluation followed up by an internal audit. In some cases, Essity engaged 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 yearend closing.

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.

Share capital and ownership structure

Share information

According to Essity's Articles of Association, the share capital shall be not less than SEK 1,700,000,000 and not more than SEK 6,800,000,000, divided into not less than 700,000,000 shares and not more than 2,800,000,000 shares. There are two classes of shares issued in the Company, shares of Class A and shares of Class B. According to Essity's Articles of Association, the Company also has the option of issuing shares of Class C.[1] No shares of Class C have been issued. As of the date of this prospectus, the Company's registered share capital is SEK 2,350,366,980, represented by 702,342,489 shares whereof 64,593,939 shares of Class A and 637,748,550 shares of Class B, each with a quota value of approximately SEK 3.35 (rounded to two decimals).[2] For information regarding changes in the Company's share capital see "*Share capital development*" below.

The shares in Essity have been issued in accordance with Swedish law, are fully paid and denominated in SEK. The shares are not subject to any restrictions on transferability. The rights of the shareholders may only be changed pursuant to the procedures set out in the Swedish Companies Act.

Depositary Shares

American Depositary Shares

Deutsche Bank Trust Company Americas serves as the depositary of the Essity ADSs (the "**Depositary**"). In its capacity as Depositary, Deutsche Bank Trust Company Americas will register and deliver the Essity ADSs, each of which represents (i) one Essity Class B share deposited with Handelsbanken, as custodian (including any successors thereto, the "**Custodian**") for the Depositary and (ii) any other securities, cash or other property which may be held by the Depositary or the Custodian. The Depositary's principal executive office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 110005, USA.

Swedish law governs the rights of Essity's shareholders. From the perspective of Swedish law, the Depositary, not the ADS holders, is the holder of all shares underlying the ADSs. Essity does not intend to treat ADS holders as Essity shareholders. Accordingly, ADS holders will not have shareholder rights but will instead have a more limited set of contractual rights in their capacity as ADS holders. A deposit agreement among Essity, the Depositary and the ADS holders sets out the rights of ADS holder and the rights and obligations of the Company and the Depositary. The laws of the State of New York govern the deposit agreement and the ADSs. For instructions on how to obtain copies of the deposit agreement and the form of American Depositary Receipt, see "*Documents on display*" in the section entitled "*Legal Considerations and Supplementary Information*".

Fees and expenses

Pursuant to the Deposit Agreement, Essity ADS holders are required to pay the Depositary certain fees of up to USD 5.00 per 100 ADSs for each of the following services:

(i) the issuance of ADSs and distributions in respect of ADSs pursuant to stock dividends, stock splits or other distributions;
(ii) the withdrawal of the shares underlying the ADSs or other cancellation of ADSs;
(iii) the distribution of cash dividends or any other distribution of cash entitlements;
(iv) the issuance of ADSs upon the exercise of rights; and
(v) the annual administration, operation and maintenance of the ADR Program.

In addition, ADS holders, beneficial owners, persons depositing shares for deposit, persons surrendering Essity ADSs for cancellation and persons withdrawing shares underlying the Essity ADSs will be required to pay the following charges:

(i) taxes and other governmental charges;
(ii) such registration fees as may from time to time be in effect for the registration of shares with the foreign registrar;
(iii) such cable, telex, facsimile and electronic transmission and delivery expenses as are expressly provided in the Deposit Agreement;
(iv) expenses, fees and other charges incurred by the Depositary in the conversion of foreign currency;
(v) fees and expenses incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to the shares underlying the Essity ADSs, the Essity ADSs and the Essity ADRs;
(vi) fees and expenses incurred by the Depositary in connection with the delivery of shares underlying the Essity ADSs; and
(vii) any fees, charges, costs or expenses that may be incurred from time to time by the Depositary and/or any of the Depositary's agents, including the Custodian, in connection with the servicing, sale or delivery of the shares underlying the Essity ADSs or the Essity ADSs, or otherwise in connection with the Depositary's or its Custodian's compliance with applicable laws, rules or regulations.

The fees owed to the Depositary for cash distributions are generally paid from deductions made by the Depositary from the cash being distributed. In the case of distributions other than cash, the Depositary charges the applicable fees concurrently with the distribution to the ADS holders as of the record date or from the sale by the Depositary of the distributable property.

1) The purpose of this provision is to enable the use of shares of Class C for delivery in certain incentive programs. No such incentive programs are currently offered by the Company.
2) As of December 31, 2016, the Company's registered share capital was SEK 500,000, represented by 5,000 shares, each with a quota value of SEK 100 per share.

Payment of Taxes

ADS holders will be responsible for any taxes or other governmental charges payable, or which become payable, on the ADRs, the ADSs or on the class B shares or other deposited securities represented by the ADSs. Until such taxes or other charges are paid by ADS holders, the Depositary may refuse the deposit of class B shares, and it may refuse to issue ADSs, to deliver ADRs, to register the transfer, split-up or combination of ADRs or to allow ADS holders to withdraw the deposited securities represented by the ADSs. The Depositary may withhold or deduct the amount of any outstanding taxes or charges from any distributions made in respect of deposited securities, or it may sell deposited securities represented by the ADSs to pay any such outstanding taxes or charges and ADS holders will remain liable for any deficiency. If the Depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any net proceeds, or send to ADS holders any property, remaining after it has paid the taxes or charges.

The obligations of ADS holders and beneficial owners regarding taxes survives any transfer of ADRs, any surrender of ADRs and withdrawal of underlying shares or the termination of the Deposit Agreement.

Requirements for Depositary Actions

Before the Depositary will issue, deliver or register a transfer of an ADS, split-up, subdivide or combine ADSs, make a distribution on an ADS, or permit withdrawal of Essity shares, the Depositary will require the payment of the fees, charges and expenses provided for under the Deposit Agreement as well as the payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Class B shares or other deposited securities and payment of the applicable fees, expenses and charges of the Depositary.

Fees Payable by the Essity Depositary to Essity

The Depositary may provide Essity with payments in consideration for its appointment as exclusive depositary for the ADS program.

Certain rights attached to the shares

Voting rights at the General Meeting

Each share of Class A carries ten votes and each share of Class B carries one vote at the General Meeting. If shares of Class C are issued, each share of Class C would carry one vote. Each shareholder is entitled to vote for the total number of shares held without limitation of the voting powers. See "*General Meeting*" in the section entitled "*Corporate governance*" for further information about the General Meeting in Essity.

Preferential rights to new shares, etc.

Should the Company decide on a cash or set off issue of shares of Class A, Class B and Class C, holders of shares of Class A, Class B and Class C shall have preferential rights to subscribe in proportion to their existing shareholdings (primary preferential right). Shares that are not subscribed for with primary preferential right shall be offered to all shareholders for subscription (secondary preferential right). Should the Company resolve to, through a cash or set off issue, only issue shares of Class A, Class B or Class C, all shareholders shall, regardless of whether they own shares of Class A, Class B or Class C, have preferential right to subscribe for new shares in proportion to their existing shareholdings. There are no provisions in the Company's Articles of Association that limit the Company's ability to decide to, in accordance with the rules set out in the Swedish Companies Act, issue new shares, warrants or convertibles with deviation from the shareholders' preferential rights. See § 7 in the section entitled "*Articles of Association*".

Rights to dividends and surplus in the event of liquidation

Shares of Class A and Class B carry the same right to share in the Company's profit and any surplus in the event of liquidation. Shares of Class C, if such shares are issued, carry entitlement annual dividends from the Company's distributable earnings in an amount corresponding to STIBOR for a term of 6 months from May 1 of a certain year until and including May 1 of the subsequent year and calculated on the ratio value of the Company's share.

Dividends are resolved upon by the General Meeting and the payment is administered by Euroclear Sweden. Dividends may only be paid if the Company, after such dividends, still has full coverage of its restricted equity and further to the extent that such dividends are justified taking into consideration (i) the demands with respect to size of shareholders' equity which are imposed by the nature, scope and risks associated with the operations, and (ii) the Company's and the Group's consolidation needs, liquidity and financial position in general (the so-called prudence rule). As a general rule, the shareholders may not decide upon larger dividends than those proposed or approved by the Board of Directors. Dividends are normally paid to shareholders in cash on a per share basis, but may also be paid in kind. See also "*Dividend policy*" below.

On the record date established by the General Meeting, holders recorded as owners of shares in the register of shareholders maintained by Euroclear Sweden will be entitled to receive dividends. If a shareholder cannot be paid through Euroclear Sweden, such shareholder still retains its claim to the dividend amount, and the claim remains against the Company subject to a statutory limitation of 10 years. Should the claim become barred by the statute of limitations, the dividend amount is forfeited to Essity. Neither the Swedish Companies Act nor Essity's Articles of Association contain any restrictions regarding dividend rights of shareholders outside Sweden. Subject to any restrictions imposed by banks or clearing systems in the relevant jurisdiction, payments to such shareholders are made in the same manner as for shareholders resident in Sweden. However, shareholders with limited tax liability in Sweden are normally subject to Swedish withholding tax. See the section entitled "*Certain tax issues*" for additional information.

Conversion of shares of Class A to shares of Class B

According to Essity's Articles of Association, holders of shares of Class A are entitled to request that these be converted to shares of Class B. An application for conversion must be made in writing to the Company. The request shall state the number of shares that the holder wishes to convert and, if the conversion does not encompass the individual's entire holding, which shares the individual wishes to convert. The Company's Board of Directors should at its next scheduled meeting address issues relating to conversion of shares of Class A to shares of Class B, whose owners during the period prior to the meeting requested conversion. However, The Board of Directors has the right if there are reasonable grounds, to also address the issue of conversion at other times than those stated above. The conversion shall be reported for registration with the Swedish Companies Registration Office without delay.

Redemption

The Board of Directors shall, during the period from July 1 up to and including July 31 of each year, be entitled to decide to reduce the share capital by redemption of all shares of Class C in issue. If a decision to redeem is made, holders of shares of Class C shall be obliged to accept redemption at a price equivalent to the quota value of the shares. The redemption price shall be paid as soon as possible. There are currently no issued shares of Class C.

Share capital development

The table below shows the development of the Company's share capital since January 1, 2014.

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	Quota value, SEK
2016	New share 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	Conversions	–584	584	64,593,939	637,748,550	702,342,489	–	2,350,366,980	3.35

1) On the Annual General Meeting, held on April 5, 2017, the shareholders resolved on the bonus issue. The purpose of the bonus issue was to increase the share capital as well as the number of shares to reflect the conditions of SCA as per April 5, 2017.

Ownership structure

As per the date of this prospectus, Essity is a wholly-owned subsidiary of SCA. The table below shows Essity's ownership structure under the assumption that the distribution of shares in Essity had been completed with April 28, 2017 as record date. The ownership structure will initially be the same as in SCA, which at the aforementioned date had 88,258 shareholders. The largest shareholder was AB Industrivärden, with approximately 9.5% of the total share capital and approximately 29.7% of the total voting rights in SCA.

Holder/nominee/custodian	Number of shares of Class A	Number of shares of Class B	Total number of shares	Shares, %	Votes, %
AB Industrivärden	35,000,000	31,800,000	66,800,000	9.5	29.7
Norges Bank Investment Management	8,066,000	25,846,798	33,912,798	4.8	8.3
SHB resultatandelsstiftelse Oktogonen	3,150,000	-	3,150,000	0.4	2.4
Swedbank Robur Fonder	-	28,949,612	28,949,612	4.1	2.2
AMF Försäkring & Fonder	333,500	23,567,451	23,900,951	3.4	2.1
Skandia	2,009,710	3,949,486	5,959,196	0.8	1.9
SHB pensionskassa	1,303,000	-	1,303,000	0.2	1.0
SEB Fonder	-	11,751,373	11,751,373	1.7	0.9
SCAs personalstiftelse	982,845	74,406	1,057,251	0.1	0.8
SHB Fonder	-	8,305,933	8,305,933	1.2	0.6
Total ten largest shareholders	**50,845,055**	**134,245,059**	**185,090,114**	**26.2**	**50.0**
Other shareholders	13,749,409	506,270,571	520,019,980	73.8	50.0
Total[1]	**64,594,464**	**640,515,630**	**705,110,094**	**100.0**	**100.0**

1) The table above does not reflect the cancellation of 2,767,605 own Class B shares resolved upon at the Annual General Meeting of SCA on April 5, 2017. In addition, the total number of shares of Class A and Class B, respectively, in SCA and Essity, respectively, has changed due to conversions made after April 28, 2017. At the time of the prospectus, the total number of shares in SCA as well as Essity amounts to 702,342,489, whereof 64,593,939 shares of Class A and 637,748,550 shares of Class B.
Source: Euroclear Sweden, April 28, 2017.

In Sweden, the lowest limit for disclosure of holdings (so-called flagging) is five percent of all shares or the voting rights of all shares.

Warrants and convertible loans

There are no outstanding warrants or convertible loans.

Central securities depository

Essity's shares are book-entry registered in a securities register in accordance with the Swedish Central Securities Depository and Financial Instruments Accounts Act (*lagen* (*1998:1479*) *om värdepapperscentraler och kontoföring av finansiella instrument*). The register is operated by Euroclear Sweden (Euroclear Sweden AB, P.O. Box 191, SE-101 23 Stockholm, Sweden). The shares are registered in person. No share certificates have been issued for the shares or will be issued for the new shares. The ISIN code of the shares of Class A in Essity is SE0009922156 and the ISIN code of the shares of Class B in Essity is SE0009922164.

Shareholders' agreements, etc.

As far as the Board of Directors is aware, no shareholders' agreements or any other agreements between the shareholders of the Company with the aim to exercise joint influence over the Company are in place. Nor is the Board of Directors aware of any agreements or equivalent which may result in any change of control over the Company.

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.

No dividend has been paid by the Company during the period 2014–2016. For more information regarding dividends, see "*Rights to dividends and surplus in the event of liquidation*" above.

Articles of association

Adopted by the Annual General Meeting on April 5, 2017.

§1. Name
The name of the Company is Essity Aktiebolag (publ). The Company is a public company.

§2. Registered office
The registered office of the Company is in Stockholm.

§3. Object of the Company's business
The object of the Company's business is to own and manage shares and other certificates of participation in industrial undertakings, carry out industrial and commercial operations, principally business within the hygiene area, and engage in other similar activities, as well as activities consistent therewith.

§4. Share capital
The share capital of the Company shall be not less than one billion seven hundred million (1,700,000,000) Swedish Kronor and not more than six billion eight hundred million (6,800,000,000) Swedish Kronor.

§5. Number of shares
The number of shares shall not be less than 700,000,000 and shall not exceed 2,800,000,000.

§6. Share Classes
Shares in the Company may be issued in three classes, Class A, Class B and Class C.

At General Meetings of the Shareholders, Class A shares carry ten votes, Class B and Class C shares one vote.

The entire share capital may be represented by Class A or Class B shares. The maximum number of Class C shares that may be issued is however 1,800,000.

Holders of Class A shares shall have the right, but not the obligation, to require that Class A shares are converted to Class B shares. Request for conversion shall be made in writing to the Board of Directors of the Company. The request shall state the number of shares to be converted and, if the request does not involve the entire holding, which of these are intended for conversion. The Board shall at its regular meetings consider issues regarding conversion to Class B shares of Class A shares whose owners have requested such conversion prior to the meeting. However, the Board has the right, if it deems advisable, to consider matters regarding conversion at other times than those stated above. The conversion shall be submitted for registration without delay.

Class C shares held by the Company itself shall at the request of the Board of Directors of the Company be convertible to Class B shares. The conversion shall be submitted for registration without delay and shall be effected when registration takes place.

§7. Preferential rights
If the Company decides to issue new Class A, Class B and Class C shares through a cash issue or an issue against payment through set-off of claims, owners of Class A, Class B and Class C shares shall have preferential rights to subscribe for new shares of the same type in proportion to the number of shares already owned (primary preferential right). Shares not subscribed for on the basis of primary preferential rights shall be offered for subscription to all shareholders (subsidiary preferential right). If the number of shares offered in this manner is insufficient for subscription based on subsidiary rights, the shares shall be distributed in relation to the number of shares already held and, to the extent that this is not possible, by lot.

If the Company decides to issue new shares of only Class A or Class B or Class C through a cash issue or an issue against payment through set-off of claims, all shareholders, irrespective of whether they own Class A or Class B or Class C shares, shall have preferential rights to subscribe for new shares in proportion to the number of shares already held.

If the Company decides to issue warrants or convertibles through a cash issue or an issue against payment through set-off of claims, the shareholders have preferential rights to subscribe to warrants as if the issue were of the shares that may be subscribed to pursuant to the warrant and, respectively, preferential rights to subscribe to convertibles as if the issue were of the shares that the convertibles may be converted to.

The aforementioned stipulation shall not impose any restriction on the possibility to decide on a cash issue or an issue against payment through setoff of claims that deviates from shareholders' preferential rights.

In the event of an increase in share capital through a bonus issue, new shares of each class shall be issued in proportion to the number of shares of the same class already issued. In such cases, shares of a specific class shall carry entitlement to new shares of the same class.

§8. CSD clause
The Company's shares shall be registered in a central securities depository register pursuant to the Financial Instruments Accounts Act (lagen (1998:1479) om värdepapperscentraler och kontoföring av finansiella instrument).

§9. Board of Directors
The Board of Directors of the Company shall consist of not less than three and not more than twelve members, with not more than five deputies.

§10. Auditors
The General Meeting shall appoint at least one and not more than three auditors, with not more than three deputies.

§11. Notice
Notice of General Meetings shall be made by advertisement in the Swedish Official Gazette (Post- och Inrikes Tidningar) and on the Company's website. An announcement that this has been done shall be published in Dagens Nyheter and Svenska Dagbladet.

In order to be permitted to attend General Meetings, shareholders must, firstly, be registered in the transcript of the entire share ledger prevailing five weekdays prior to the general meeting and, secondly, notify the Company of its attendance no later than the day specified in the notice of the Meeting. This day must not be a Sunday, any other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve, and must not fall earlier that the fifth weekday prior to the Meeting.

§12. The venue of General Meetings
General Meetings shall be held in Stockholm or Gothenburg.

§13. Annual General Meeting
The following matters shall be dealt with at the Annual General Meeting:

1. Election of Chairman of the Meeting
2. Preparation and approval of the voting list
3. Election of two persons to verify the minutes
4. Determination of whether the Meeting has been duly convened
5. Approval of the agenda
6. Presentation of the annual report and the auditors' report and the consolidated financial statements and the auditors' report in respect of the consolidated financial statements
7. Resolutions on:
    a. adoption of the income statement and balance sheet and the consolidated income statement and the consolidated balance sheet
    b. appropriations of the Company's profit or loss as shown in the adopted balance sheet
    c. discharge of the members of the Board of Directors and of the President from personal liability
8. Determination of the number of members and deputy members of the Board of Directors
9. Determination of the number of auditors and deputy auditors
10. Determination of the fees to be paid to the Board of Directors and the fees to be paid to the auditors
11. Election of members and deputy members of the Board of Directors
12. Appointment of auditors and deputy auditors
13. Any other matter to be considered at the Meeting under the Swedish Companies Act (2005:551) or the Articles of Association

§14. Financial year
The Company's financial year shall be the calendar year.

§15. Redemption clause etc.
Shares of Class C carry entitlement to annual dividends from the Company's distributable earnings in an amount corresponding to STIBOR for a term of 6 months from 1 May of a certain year until and including 1 May of the subsequent year and calculated on the ratio value of the Company's share.

The Board of Directors of the Company shall in the period from 1 July up to and including 31 July of each year be entitled to decide to reduce the share capital by redemption of all Class C shares.

If a decision to redeem is made, holders of Class C shares shall be obligated to accept redemption at a price equivalent to the ratio value of the shares. The redemption price shall be paid as soon as possible.

Legal considerations and supplementary information

General corporate and group information

The legal name of the Company (and its commercial name) is Essity Aktiebolag (publ). Essity's Swedish corporate ID No. is 556325-5511 and the registered office of the Board of Directors is situated in Stockholm, Sweden. The Company was incorporated in Sweden on April 25, 1988, and registered with the Swedish Companies Registration Office on August 5, 1988. The Company is a Swedish public limited liability company (*publikt aktiebolag*) governed by the Swedish Companies Act.

On December 30, 2016 SCA and Essity entered into an asset transfer agreement, which includes the transfer of all assets and liabilities attributable to the hygiene business to Essity. Prior to the asset transfer of the hygiene business, the Company has only conducted minor operations.

Essity is the ultimate parent company of the Group, which comprises approximately 300 legal entities in approximately 70 countries. The table below shows the most significant Group companies and contains wholly-owned subsidiaries and subsidiaries with significant non-controlling interests. Essity's holdings in associated companies are not deemed to be of significant importance to Essity's financial position or earnings.

Subsidiary	Country	Shares and voting rights, %
SCA Hygiene Products SAS	France	100
SCA Hygiene Products Nederland B.V.	Netherlands	100
SCA Hygiene Products (Fluff) Ltd.	UK	100
SCA Tissue North America LLC	USA	100
BSN medical with subsidiaries	Luxembourg	100
Vinda International Holdings Ltd[1]	China	55
Wausau Paper Towel & Tissue LLC	USA	100
SCA Hygiene Products Vertriebs GmbH	Germany	100
SCA Hygiene Products AB	Sweden	100
SCA Hygiene Products S.L.	Spain	100
SCA Consumidor Mexico, S.A. de C.V.	Mexico	100
Productos Familia S.A., Colombia[1]	Colombia	50
SCA Hygiene Products SPA	Italy	100
SCA Hygiene Products Russia OOO	Russia	100
SCA Hygiene Sp.z.o.o.	Poland	100
SCA Hygiene Products GmbH	Austria	100
SCA Hygiene Products SA-NV	Belgium	100
SCA Hygiene Products AFH Sales GmbH	Germany	100
SCA North America-Canada Inc.	Canada	100
OY SCA Hygiene Products AB	Finland	100
SCA PERSONAL CARE INC.	USA	100
Productos Familia del Sancela Ecuador S.A.[1]	Ecuador	50
SCA Hygiene Products AS	Norway	100
SCA Hygiene Products AG	Switzerland	99
SCA Hygiene Products A/S	Denmark	100
SCA Chile SA	Chile	100
Sancella S.A.	Tunisia	49
SCA Hygiene Products Kft	Hungary	100
Uni-Charm Mölnlycke KK	Japan	49
SCA Hygiene Products s.r.o.	Czech Republic	100
SCA Hygiene Spain, SL	Spain	100
SCA Hygiene Products Slovakia s.r.o.	Slovakia	100
SCA Hygiene Products GmbH Wiesbaden	Germany	100
SCA Tissue France SAS	France	100
SCA Hygiene Products GmbH Mannheim	Germany	100
SCA Hygiene Products GmbH Neuss	Germany	100
SCA Hygiene Products Sp.z.o.o.	Poland	100
SCA Hygiene Products Supply SAS	France	100
SCA Hygiene Products Manchester Ltd	UK	100

[1] The Group has a small number of subsidiaries that are partly owned and hold significant non-controlling interests.

The spin-off from SCA

Background

The Group's operations were previously conducted largely as an operationally independent business, but has been legally integrated within SCA in Sweden and has shared certain group functions such as, for example, financing and treasury with SCA. Prior to the distribution of Essity, the Group's operations have in essence been separated from the other operations conducted by SCA. The starting point for the separation has been that SCA is responsible for the operations related to the forest business and that Essity is responsible for the operations related to the hygiene business (the "**Hygiene Business**"). To create a legally separated unit and to regulate the relationship between the Group and SCA after the separation, Essity and SCA have entered into certain separation agreements (the "**Separation Agreements**"). The decision to separate Essity from SCA through a distribution to the shareholders of SCA was adopted by SCA's Annual General Meeting on April 5, 2017. For further information regarding the distribution of Essity, see the section entitled "*Information regarding the distribution of Essity*".

The Separation Agreements

The Separation Agreements consist of an asset transfer agreement ("**ATA**") and a master separation agreement ("**MSA**"). The ATA generally governs (i) the transfers to Essity of companies belonging to the Hygiene Business, (ii) transfers to Essity of assets and liabilities not clearly attributable to SCA's forest operations, (iii) transition of employees employed at the headquarters, (iv) transfer and licensing of intellectual property rights and (v) allocation of liabilities between Essity and SCA in relation to current, previous and future operations of SCA and Essity.

According to the ATA, SCA will, as a main rule, indemnify Essity for claims and obligations clearly attributable to SCA's forest operations and, correspondingly, Essity will indemnify SCA for claims and obligations clearly attributable to the Hygiene Business. Liabilities that cannot be allocated by applying the main rule described above, shall be allocated by applying an allocation principle, which entails that the liability shall be allocated by 85% to Essity and by 15% to SCA. The Separation Agreements contain certain examples of situations where the allocation principle shall apply. For instance, it is clarified that the allocation principle shall apply to liability relating to external financing, tax planning and compliance with stock exchange laws and regulations.

Should the parties fail to agree on the application of the main rule or the allocation principle, the dispute shall be discussed, first, by the parties' respective general counsel and, secondly, by their respective CEO, before such dispute is brought to arbitration.

The MSA contains, among other things, provisions on (i) the future use of certain SCA brands, (ii) future exchange of historical information and (iii) future handling of the group foundations.

Service agreements
Essity and SCA have entered into a number of transitional services agreements, according to which Essity has agreed to provide certain services to SCA pending the establishment of SCA's own independent capacity. Such service agreements mainly concern IT services (infrastructure) and HR. The service agreements generally have a term of 3–7 months, with the exception of a few services which have a longer duration (a maximum of 12 months from the separation).

Intellectual property rights
Under the ATA, SCA has transferred intellectual property rights to certain SCA Group brands (i.e., the group logotype) to Essity, while the trademark "SCA" will remain under the ownership of SCA. The SCA corporate brands are widely used by both the forest and the Hygiene Business. In order to secure an orderly rebranding of the two businesses, the Separation Agreements contain certain provisions regarding the future use of these.

Transfer of pension liabilities
Essity and SCA have between them agreed that all pension liabilities carried by SCA, as well as all pension assets constituting security for such liabilities (except the pension liabilities and pension assets connected to the employment of a few individuals including i.a. the deputy managing director Ulf Larsson), shall be transferred to Essity.

SCA Försäkringsaktiebolag (the Group's insurance company)
On December 31, 2016, Essity and SCA entered into an agreement regarding the transfer of SCA Försäkringsaktiebolag to Essity. Since SCA Försäkringsaktiebolag has an authorization to carry out insurance operations, the consent of the Swedish Financial Supervisory Authority is required for the transfer of the shares in the company, and the transfer of the company was consequently conditional upon such approval being obtained.[1] The authority gave the consent on June 2, 2017.

Reallocation of net debt etc.
See "*Other significant changes*" in the section entitled "*Capitalization and other financial information*" for a description of the reallocation of net debt and certain transactions that have been made between Essity and SCA and that will be made between the companies in connection with the completion of the distribution on or around the first day of trading in the Essity shares on Nasdaq Stockholm.

Material agreements

Presented below is a summary of material agreements entered into by Essity during the past two years as well as other agreements entered into by Essity which contains any right or obligation which is material to Essity (in both cases excluding agreements entered into in the ordinary course of business).

Acquisitions and divestments
Acquisition of BSN medical
In December 2016, Essity entered into an agreement to acquire BSN medical for a purchase price of EUR 1,400m for the shares and the takeover of net debt amounting to approximately EUR 1,340m[2]. On April 3, 2017, Essity closed the acquisition of BSN medical.

The share purchase agreement contains warranties from the seller regarding the corporate status of the selling company and its subsidiaries, including warranties regarding the ownership of the shares, on financial statements, intellectual property rights, conduct of business, permits, compliance, products, environment, tax and litigation, subject to customary limitations and exclusions including a de minimis amount of EUR 1m and a non-tipping claims basket/deductible in the amount of EUR 15m. Essity has taken out warranty and indemnity insurance for warranty claims under share purchase agreement with an overall amount of coverage of EUR 440m; the warranty and indemnity insurance package is subject to customary limitations and exclusions.

Claims against the seller regarding the breach of a warranty (except for a warranty regarding corporate matters) will become time-barred thirteen months after the closing, claims regarding seller's covenants become time-barred after four months after closing and all other claims at least three years after closing. Under the warranty and indemnity insurance package, the warranty periods have been extended to 24 months after closing for business warranties and 84 months for fundamental warranties.

Acquisition of Wausau Paper Corp.
On January 21, 2016, Essity completed its acquisition of Wausau, a US-based company which manufactures and markets away-from-home towel and tissue products and soap and dispensing system products through its Artisa, DublNature, DublSoft and EcoSoft brands. The acquisition was governed by a merger agreement pursuant to which Salmon Acquisition, Inc., a wholly-owned subsidiary of SCA Americas Inc., was merged with Wausau, with the latter company continuing as the surviving company. Upon completion, each Wausau share (other than treasury shares or shares owned by SCA Americas Inc., or any direct or indirect wholly-owned subsidiary of SCA Americas or Wausau) was cancelled and automatically converted into the right to receive USD 10.25 in cash, and trading of Wausau shares on NYSE ceased. The total consideration paid for the acquisition was USD 513m in cash.

The merger was completed on the basis of representations and warranties given by Wausau to Essity in relation to the Wausau business; and Salmon Acquisition Inc's obligations under the merger agreement were guaranteed by SCA.

Divestment of the hygiene business in Southeast Asia, Taiwan and South Korea for integration with Vinda
As of the date of the prospectus Essity holds 54.6% of the shares in Vinda. Vinda markets and sells tissue and personal care products, principally in China, Hong Kong and Macau. Vinda is listed on the Hong Kong Stock Exchange.

On April 1, 2016, Essity completed the divestment to Vinda of its business in South East Asia, Taiwan and South Korea. The consideration amounted to HKD 2.8bn on a debt-free basis, made up of cash, consideration shares and convertible notes (which were converted to Vinda shares upon completion). Essity gave customary general, tax and environmental warranties under the share purchase agreement. Claims for tax warranties are time-barred 6 years after completion and, for all other warranties, 18 months after completion.

As part of the transaction, Essity and Vinda have signed an agreement pursuant to which Essity grants Vinda an exclusive license to market and sell the Essity brands TENA, Tork, Tempo, Libero and Libresse in South East Asia, Taiwan and South Korea. Pursuant to the acquisition agreement and a trademark assignment agreement, Vinda acquired the brands Drypers, Dr.P, Sealer, Prokids, EQ Dry and Control Plus in these same markets. Essity has also granted Vinda a licence to use patents and technology related to these acquired brands.

Essity and Vinda also cooperate by way of a services agreement, pursuant to which Essity and the divested business provide certain IT and accounting services to each other, and a procurement agreement, pursuant to which Essity and Vinda agree to sell certain personal care products and raw materials as required by their respective personal care businesses, for a period of three years from March 31, 2016.

[1] SCA Försäkringsaktiebolag has been consolidated in Essity's historical financial information presented in this prospectus.
[2] Based on net debt as per December 31, 2016. Final takeover of net debt will be based on March 31, 2017.

Joint ventures and other joint operations

Essity carries out certain operations through cooperation with other business partners in joint ventures or other joint operations. Typically, the so-called joint ventures are construed so that Essity and its business partner through an agreement have shared control over the operations and are entitled to the net assets of their investment. In so-called joint operations, the respective party instead have the right to the assets and obligations for the liabilities associated with the investment which means that each party account for its share of the assets, liabilities, revenues and cost proportionally. Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint arrangement.

See note F2–F4 on p. F-75 and onwards in the section entitled "*Historical financial information*" for a further description of the Group's jointly owned subsidiaries, joint ventures, joint operations and operations with associates.

Credit agreements

See "*Credit facilities and loans*" in the section entitled "*Operational and financial review*" for a description of the material credit agreements within the Group.

Legal and arbitration proceedings

The Group has operations in several countries and from time to time the Group is subject to disputes, claims and administrative proceedings in the ordinary course of business. Other than as described below, during the past 12 months Essity has not been part to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Essity is aware) which may have, or have had in the recent past, significant effects on Essity's financial position or profitability. The Group makes provisions for the disputes that the Group is involved in accordance with applicable accounting regulations.

Some claims relating to the sale of the packaging business 2012 are ongoing of which the largest one relates to a tax dispute in Denmark. Essity has as of March 31, 2017 made provisions in its financial statements of SEK 558m for tax risks, the majority relating to provisions covering costs relating to an obligation to cover this tax dispute. Any costs that materialize for these claims will under the ATA be allocated between SCA and Essity based on the allocation principle.

In Sweden, the Swedish Tax Agency has decided on additional taxes and tax surcharges for the years 2008 to 2012 of approximately SEK 1,188m, including interest. The dispute pertains to interest expenses on loans in a Group company that arose in connection with the move of operations to Sweden in 2004. Essity has appealed the Administrative Court's ruling to the Administrative Court of Appeal and has also, in 2016, paid the disputable amount and recognized this as an expense. Essity expects that the Administrative Court of Appeal will present its ruling no later than June 16, 2017.

Essity is currently subject to investigations by competition authorities in certain countries. The outcomes of these investigations are uncertain. In addition, in 2016 competition authorities have imposed sanctions on Essity in Spain and Poland and on a joint venture in Colombia to which Essity is a party. The decisions have been appealed by Essity. Essity has made provisions in its financial statements of SEK 556m as of March 31, 2017 in order to cover litigation costs and potential sanctions related to these investigations and litigations.

Related-party transactions

See note 3 on p. F-25 and note G4 on p. F-81 in the section entitled "*Historical Financial Information*" for a description of the Group's transactions with related parties during the interim period January 1, 2017–March 31, 2017 and during the financial years 2014–2016, respectively.

In addition to the above and the related-party transactions with SCA as a result of the reallocation of net debt described in "*Other significant changes*" in the section entitled "*Capitalization and other financial information*", the main related-party transactions between Essity and SCA during the period March 31, 2017, until the date of the prospectus primarily consist of lending from Essity to SCA under the cash-pooling arrangement and of purchase of pulp used in the Group's manufacturing process.

Other than what has been described above, there have been no related-party transactions after March 31, 2017, which, as a single transaction or their entirety, are material to Essity.

For information on remuneration to the members of the Board of Directors and Executive Management, see the section entitled "*Board of Directors, Executive Management and auditor*".

Advisors, etc.

Handelsbanken and Bank of America Merrill Lynch provide financial advice to Essity in conjunction with the distribution and the listing on Nasdaq Stockholm. From time to time, Handelsbanken (and its affiliates) have in the ordinary course of business provided, and may in the future provide, various banking, financial, investment, commercial and other services to Essity for which they have received, and may receive, compensation. Furthermore, Handelsbanken (and its affiliates) are lenders and/or brokers of loans granted to Essity.

Mannheimer Swartling Advokatbyrå and Cleary Gottlieb Steen & Hamilton LLP are Essity's legal advisors in relation to the distribution and the listing on Nasdaq Stockholm.

Documents on display

The following documents (except for annual reports of subsidiaries and the deposit agreement and form of American Depositary Receipt) can be downloaded on Essity's website, www.essity.se. Copies of all documents, including the prospectus, can also be obtained at the head office of Essity (Klarabergsviadukten 63, Stockholm, Sweden) during the validity of this prospectus (regular office hours on business days).

- Essity's Articles of Association.
- Essity's financial statements for the financial years 2014–2016 (also included in the section entitled "*Historical financial information*")
- Essity's subsidiaries' Annual Reports for the financial years 2015–2016 (including audit reports).
- Essity's interim report for the period January–March 2017.
- Deposit agreement and form of American Depositary Receipt.

Certain tax issues

The following is a general description of certain tax considerations relating to the proposed distribution of shares in Essity to the shareholders of SCA. It does not purport to be a complete analysis of all tax considerations relating to the proposed distribution, neither in Sweden, the United States or elsewhere. The tax treatment of each individual shareholder depends on the shareholder's particular circumstances and the tax laws in the country where the shareholder is resident. Each shareholder should therefore consult its own tax adviser with regard to the specific tax consequences that may arise in the individual case. This summary is based upon the laws as in effect on the date of this prospectus and is subject to any change in law that may take effect after such date.

Certain tax issues in Sweden

The following is a summary of certain Swedish tax consequences that may arise from the proposed distribution of shares in Essity to shareholders of SCA. The summary is based on current legislation, is intended to only provide general information and is only applicable to individuals and limited liability companies that are resident in Sweden for tax purposes, unless otherwise stated. The summary is not exhaustive and does not cover, for example, (i) shares held by partnerships or held as current assets in business operations, (ii) the specific rules on tax-exempt capital gains (including non-deductibility for capital losses) and dividends in the corporate sector, which may become applicable when shareholders hold shares that are considered to be held for business purposes (näringsbetingade andelar) or (iii) shares that are held in a so-called investment savings account (investeringssparkonto) and that are subject to special rules on notional taxation. Special tax rules also apply to certain categories of tax payers, such as investment companies and insurance companies. Accordingly, the tax treatment of each individual shareholder depends on the individual's particular circumstances. Each shareholder should therefore consult a tax adviser with regard to the specific tax consequences that may arise in the individual case, including the applicability and effect of foreign rules and tax treaties.

Individuals

Taxation of the distribution of Essity shares

It is expected that the distribution of the shares in Essity will be made in accordance with the "Lex ASEA" rules. This means that the distribution of Essity shares to SCA shareholders will not trigger any immediate taxation. The tax basis for shareholders holding SCA shares that give entitlement to participate in the distribution will, however, be allocated among these shares and the shares received in Essity. The allocation of the tax basis will be based on the change in value of the shares in SCA due to the distribution of the shares in Essity. SCA will request general guidelines from the Swedish Tax Agency concerning how this tax basis should be allocated. Information about the Tax Agency's general guidelines will be provided as soon as possible on the websites of SCA, Essity and the Tax Agency.

Dividend taxation

For individuals, dividends on listed shares, which it is intended that the Essity shares will be, are taxed as income from capital at a rate of 30%. A preliminary tax of 30% is generally withheld on dividends to individuals tax resident in Sweden. The preliminary tax is withheld by Euroclear Sweden or, in respect of nominee registered shares, by the Swedish nominee.

Capital gains taxation upon disposal of Essity shares

When listed shares, which it is intended that the Essity shares will be, are sold or otherwise disposed of, a taxable capital gain or a deductible capital loss may arise. Capital gains are taxed as capital income at a rate of 30%. The capital gain or loss is normally calculated as the difference between the sales proceeds, after deducting sales costs, and the tax basis. The tax basis for all shares of the same class and type is calculated together in accordance with the "average cost method". The acquisition cost, and thus the tax basis, for the shares received in Essity through the distribution from SCA is calculated based on the general guidelines received from the Swedish Tax Agency. Alternatively, upon the sale of listed shares, the tax basis may be determined as 20% of the sales proceeds, after deducting sales costs, under the "notional rule".

Capital losses on listed shares are fully deductible against taxable capital gains on listed and non-listed shares and other listed equity-related securities with the exception of units in securities funds or special funds that consist solely of Swedish receivables (räntefonder). Capital losses that cannot be set off in this way can be deducted with up to 70% against other capital income. If there is a net loss in the capital income category, a tax reduction is allowed against municipal and national income tax, as well as against real estate tax and municipal real estate charges. A tax reduction is allowed with 30% on the portion of such net loss that does not exceed SEK 100,000 and with 21% on any remaining loss. Such net loss cannot be carried forward to future income years.

Limited liability companies

Taxation of the distribution of Essity shares

As noted above, it is expected that the distribution of the shares in Essity will be made in accordance with the "Lex ASEA" rules. This means that this distribution will not give rise to any immediate taxation. The tax basis for shareholders holding SCA shares that give entitlement to participate in the distribution will, however, be allocated among these shares and the shares received in Essity which will be made in accordance with the general guidelines from the Swedish Tax Agency that SCA will request, refer to the description above for individuals.

Taxation of dividends and capital gains with regard to Essity shares

For Swedish limited liability companies (aktiebolag), all income, including taxable capital gains and dividends, is taxed as business income at a rate of 22%. Capital gains and capital losses are calculated in the same manner as described above for individuals. Deductible capital losses on shares or other equity-related securities may only be deducted against taxable capital gains on such securities. Under certain circumstances, such capital losses may also be deducted against capital gains in another company in the same group, provided that the requirements for exchanging group contributions (koncernbidragsrätt) between the companies are met. A capital loss that cannot be utilized during a given income year may be carried forward and be offset against taxable capital gains on shares and other equity-related securities during future income years, without limitation in time.

Specific tax considerations for shareholders who are not tax residents in Sweden

Withholding tax on dividends

The distribution of Essity shares to SCA shareholders is expected to be carried out in accordance with the "Lex ASEA" rules. This means that no Swedish withholding tax will be levied on the distribution.

However, dividends on the received Essity shares will normally be subject to Swedish withholding tax. The withholding tax rate is 30% but it is often reduced for shareholders who are tax resident in countries with which Sweden has entered into a tax treaty. In Sweden, Euroclear Sweden or, for nominee registered shares, the nominee normally carries out the withholding.

In the event that 30% withholding tax is deducted from a payment to a person entitled to be taxed at a lower rate, or if too much withholding tax has otherwise been withheld, a refund can be claimed from the Swedish Tax Agency prior to the expiry of the fifth calendar year following the dividend distribution.

Capital gains taxation upon disposal of Essity shares

Shareholders with limited tax liability in Sweden and whose shareholding is not attributable to a permanent establishment in Sweden, are generally not subject to capital gains taxation in Sweden upon the disposal of shares. Shareholders may, however, be subject to taxation in their country of residence. Under a specific tax rule, individuals with limited tax liability in Sweden may, however, be subject to tax in Sweden on the sale of shares if they have been resident or lived permanently in Sweden at any time during the calendar year of such disposal or during any of the previous ten calendar years. The application of this rule may be limited by tax treaties between Sweden and other countries.

Certain United States federal income tax considerations

The following is a summary of certain U.S. federal income tax consequences that may arise for a U.S. Holder (as defined below) from the proposed distribution of Essity shares or Essity ADSs to holders of SCA shares or SCA ADSs (for the purpose of this summary, the "**Distribution**") and of acquiring, owning and disposing of the Essity shares or ADSs received in the Distribution. This summary applies only to U.S. Holders that hold SCA shares or SCA ADSs, and will hold Essity shares or ADSs, as capital assets for U.S. federal income tax purposes and have as their functional currency the U.S. dollar, and does not address the tax treatment of U.S. Holders that are subject to special tax rules, such as banks, insurance companies, tax-exempt organizations, dealers in securities or currencies, traders in securities electing to mark-to-market, or persons that hedge their exposure in the SCA shares or Essity shares or ADSs or hold the SCA or Essity shares or ADSs as a position in a "straddle" for tax purposes or as part of a "synthetic security" or a "hedging" or "conversion" transaction or other integrated investment comprised of such SCA or Essity shares or ADSs and one or more other investments, holders that own or are treated as owning more than 10% of SCA's or Essity's shares or ADSs, nonresident aliens present in the United States for more than 182 days in a taxable year, U.S. expatriates, or entities taxed as partnerships or the partners therein. The discussion does not address the applicability and effect of the alternative minimum tax or the Medicare tax on net investment income to a U.S. Holder. U.S. Holders should consult their own tax advisers regarding the U.S. federal income tax consequences to them of receiving Essity shares or ADSs as a result of the Distribution.

For purposes of this summary, a "**U.S. Holder**" is a beneficial owner of SCA shares or ADSs, or of Essity shares or ADSs received in the Distribution, that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the SCA or Essity shares or ADSs, as applicable.

Except as described below, a U.S. Holder of SCA ADSs or Essity ADSs will be treated for U.S. federal income tax purposes as the beneficial owner of the underlying SCA shares or Essity shares that are represented by those ADSs. Shares and ADSs on those shares are referred to below as "**Shares**".

Distribution of Essity Shares

The U.S. federal income tax consequences of the proposed Distribution of Essity Shares to a U.S. Holder will depend on whether the Distribution is treated as tax-free for U.S. federal income tax purposes.

SCA has obtained an opinion from its special U.S. tax counsel, Cleary Gottlieb Steen & Hamilton LLP ("**Tax Counsel**"), that on the basis of certain facts, representations, and assumptions on which Tax Counsel relied, the Distribution should be treated as a tax-free distribution to U.S. Holders pursuant to section 355 of the U.S. Internal Revenue Code. The opinion of Tax Counsel is not binding on the U.S. Internal Revenue Service ("**IRS**"), and the IRS or the courts may disagree with the opinion. Additionally, if any of the facts, representations or assumptions referred to above are inaccurate, incomplete or untrue in any material respect, the opinion may not correctly describe the U.S. federal income tax treatment of the Distribution. Moreover, future events that may or may not be within

SCA's or Essity's control, such as the acquisition by one or more persons of significant interests in Essity from the Essity shareholders that received Essity shares in the Distribution, or of significant interests in SCA from SCA shareholders after the Distribution, could in some cases potentially cause the Distribution to not qualify for tax-free treatment to Essity's U.S. Holders for U.S. federal income tax purposes. The absence of a significant time period prior to any such acquisition following the Distribution could increase the risk that the Distribution would not qualify for tax-free treatment.

The remainder of this summary assumes that the Distribution will be treated as tax-free for U.S. federal income tax purposes, except where otherwise stated.

Accordingly, U.S. Holders will not recognize any income, gain or loss for U.S. federal income tax purposes as a result of the Distribution.

A U.S. Holder's basis in each SCA Share held prior to the Distribution should be allocated between that SCA Share and the Essity Share received in the Distribution with respect to that SCA Share in proportion to the fair market values of the Essity and SCA Shares. In addition, a U.S. Holder's holding period in the Essity Shares will include its holding period in the SCA Shares with respect to which the Essity Shares were received.

U.S. Treasury regulations require certain U.S. Holders who are "significant distributees" with respect to the Distribution to attach to their U.S. federal income tax returns a statement setting forth information with respect to the Distribution. A U.S. Holder should consult its own tax advisor to determine whether it is a significant distributee required to provide the foregoing statement.

In the event that the Distribution does not qualify as a tax-free distribution for U.S. federal income tax purposes, U.S. Holders generally should expect to be treated as receiving ordinary dividend income as a result of the Distribution in an amount equal to the USD value of the Essity Shares they receive, and their tax basis in the Essity Shares would be equal to the value of those Shares on the date of the Distribution.

Distributions on Essity Shares

Subject to the discussion under "*Passive Foreign Investment Company Rules*" below, the gross amount of any distributions made in respect of Essity Shares generally will be includible in a U.S. Holder's taxable income as ordinary dividend income on the date the U.S. Holder receives the distribution (or on the date the depositary received the distribution, in the case of Essity ADSs), to the extent of Essity's earnings and profits for U.S. federal income tax purposes and will not be eligible for the dividends-received deduction allowed to U.S. corporations. We do not expect Essity to maintain calculations of its earnings and profits in accordance with U.S. federal income tax principles. U.S. Holders therefore should expect that all distributions by Essity generally will be treated as dividends for U.S. federal income tax purposes.

Dividends paid in a currency other than U.S. dollars generally will be includible in a U.S. Holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the U.S. Holder receives the dividends (or on the date the depositary received the dividend, in the case of Essity ADSs).

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. Holder with respect to the Essity Shares will be subject to taxation at a preferential rate if the dividends are "qualified dividends". Dividends paid on the Shares will be treated as qualified dividends if:

- the Essity Shares are readily tradable on an established securities market in the United States or Essity is eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program; and
- Essity was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (a "**PFIC**").

The U.S. Treasury has determined that the Convention between the Government of the United States of America and the Government of Sweden for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income dated 1 September 1996 (as amended by any subsequent protocols, including the protocol of September 2005) (the "**Treaty**") meets the requirements for reduced rates of taxation, and it is expected that Essity will be eligible for the benefits of the Treaty. As further discussed below under "*Passive Foreign Investment Company Rules*" it is also expected that Essity will not be a PFIC for U.S. federal income tax purposes with respect to the 2017 taxable year. Accordingly, it is expected that dividends paid on the Shares will be treated as "qualified dividends".

Subject to complex limitations and other rules, a U.S. Holder may be able to claim a foreign tax credit against its U.S. federal income tax liability for any Swedish taxes required to be withheld from a dividend paid in respect of Essity Shares. Alternatively, the U.S. Holder may deduct those Swedish taxes from its U.S. federal taxable income, provided that the U.S. Holder elects to deduct rather than credit all foreign income taxes for the relevant taxable year. The rules with respect to foreign tax credits are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Taxable Dispositions of Essity Shares

Subject to the discussion under "*Passive Foreign Investment Company Rules*" below, gain or loss realized on the sale, exchange or other disposition of Essity Shares by a U.S. Holder will generally be capital gain or loss, and long-term capital gain or loss if the Essity Shares have been held (or treated as held, as discussed under "*Distribution of Essity Shares*") for more than one year. Long-term capital gain realized by an individual U.S. Holder is subject to taxation at a preferential rate. The deductibility of capital losses is subject to limitations.

If a U.S. Holder sells or otherwise disposes of the Essity Shares (or the ADR depositary disposes of Essity ordinary shares) in exchange for currency other than U.S. dollars, any gain or loss that results from currency exchange fluctuations during the period from the date of the sale or other disposition until the date that the currency is converted into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the reduced tax rate applicable to long-term capital gains. This gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. If the currency is converted into U.S. dollars on the date of receipt, a U.S. Holder generally would not be required to recognize foreign currency gain or loss in respect of the amount realized.

Passive Foreign Investment Company Rules
If Essity were treated as a PFIC, U.S. Holders could be subject to an interest charge on dividend distributions, and would not be eligible for the preferential tax rate applicable to "qualified dividends." Additionally, a U.S. Holder would generally be subject to an interest charge on any gain realized on a taxable disposition of Essity Shares, and any such gain would generally be treated as ordinary income.

Essity will be classified as a PFIC in a particular taxable year if either:

- 75 percent or more of our gross income for the taxable year is passive income; or
- the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50 percent.

Essity is expected to derive sufficient active revenues and to hold sufficient active assets for U.S. federal income tax purposes so that Essity will not be treated as a PFIC for U.S. federal income tax purposes immediately following the Distribution or for the foreseeable future.

Information Reporting and Backup Withholding
Dividends paid on, and proceeds from the sale or other disposition of Essity Shares by a U.S. Holder may be subject to U.S. information reporting requirements and may be subject to backup withholding unless the U.S. Holder provides an accurate taxpayer identification number and makes any other required certification or otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a refund or credit against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the IRS in a timely manner.

A holder that is a foreign corporation or a non-resident alien individual may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

Specified Foreign Financial Assets
Certain U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of USD 50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the Essity Shares) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. U.S. Holders should consult their own tax advisors concerning the application of these rules to their investment in the Essity Shares, including the application of the rules to their particular circumstances.

Historical financial information


Libresse
lotus
TENA
lady
MINI NIGHT
Libero
Comfort
lights
TORK
Décor
Okay
COMPRESSÉ
Reduces tissue consumption by up to 40%
TORK
Tork SmartOne
Mini
Toilet Roll
Advanced
Libero
Newborn

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Financial data for the period January–March 2017

Financial data for the financial years 2014–2016

Interim Report January 1 – March 31, 2017

Interim Report Q1 2017 SCA Hygiene AB (publ)

SCA Care of Life

JANUARY 1 – MARCH 31, 2017 (compared with the corresponding period a year ago)

- Net sales totaled SEK 25,268m (24,248)
- Organic sales, excluding exchange rate effects, acquisitions and divestments, increased 1,0%
- Operating profit before amortization of acquisition-related intangible assets (EBITA) rose 1% to SEK 2,596m (2,558)
- Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) rose 6% to SEK 2,917m (2,744)
- Adjusted operating profit increased 7% to SEK 2,896m (2,713)
- The adjusted EBITA margin was 11.5% (11.3)
- Adjusted profit before tax rose 9% to SEK 2,630m (2,410)
- Items affecting comparability totaled SEK -409m (-191), of which SEK -134m (-185) affected cash flow
- Profit for the period was SEK 1,656m (1,625)
- Earnings per share[1] amounted to SEK 2.08 (2.15)
- The adjusted return on capital employed was 15.6% (15.5)
- Cash flow from current operations was SEK 2,282m (1,043)
- The acquisition of BSN medical was closed on April 3, 2017
- SCA's Annual General Meeting approved the distribution and listing of the hygiene business – the future hygiene and health company Essity AB. The preparations for the distribution and the listing of SCA Hygiene AB are under way, and the intention is that the first day of separate trading in the two companies will be in June 2017.
- The financial targets for the Group have been changed and are now annual organic growth of above 3% and an adjusted return on capital employed of above 15%

[1] Indicative earnings per share on the assumption that the number of issued shares in SCA Hygiene AB as of March 31, 2017 corresponded to the number of issued shares in SCA (702.3 millions) at the same date. The actual number of shares issued in SCA Hygiene AB as of March 31, 2017 was 5,000.

EARNINGS TREND

SEKm	1703	1603	%
Net sales	25,268	24,248	4
Adjusted operating profit before amortization of acquisition related intangible assets (EBITA)[2]	2,917	2,744	6
Operating profit before amortization of acquisition related intangible assets (EBITA)	2,596	2,558	1
Amortization of acquisition related intangible assets	-21	-31	
Adjusted operating profit[2]	2,896	2,713	7
Items affecting comparability	-409	-191	
Operating profit	2,487	2,522	-1
Financial items	-266	-303	
Profit before tax	2,221	2,219	0
Adjusted profit before tax[2]	2,630	2,410	9
Tax	-565	-594	
Profit for the period	1,656	1,625	2
Earnings per share, SEK	2.08	2.15	

[2] Excluding items affecting comparability; for amounts see page 13.

SCA Hygiene AB (publ), Box 200, SE-101 23 Stockholm, Sweden. www.sca.com. Corp. Reg. No. 556325-5511

CEO'S COMMENTS

At the AGM on April 5, 2017, SCA's shareholders decided to split SCA into two listed companies: SCA, an efficient and well-invested forest products company, and Essity, a leading global hygiene and health company. The split aims to increase value for shareholders in the long term through increased focus, customer value and development opportunities and by enabling each company to successfully realize its strategies. We look forward to an exciting future for these two strong listed companies.

On April 3, 2017, the Group completed the acquisition of BSN medical, a leading medical solutions company. The acquisition of BSN medical is an excellent strategic fit for SCA and will contribute to the realization of our vision – dedicated to improving well-being through leading hygiene and health solutions. BSN medical has leading market positions in several attractive medical product categories and represents a new growth platform.

We further developed our customer and consumer offerings, and launched five innovations during the quarter. In Latin America, we launched innovations in Consumer Tissue under the Familia brand and in Feminine Care under the Saba brand. In Russia, we upgraded our Baby Care offering under the Libero brand. For Incontinence Products, we launched two innovations under the globally leading TENA brand. In France, during April 2017, we launched products in Baby Care under our strong Lotus brand.

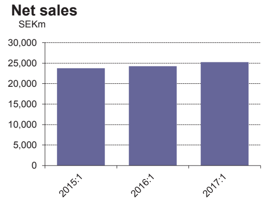
Our activities to continuously enhance efficiency and reduce costs across the supply chain continued. As part of our Tissue Roadmap, we approved investments during the quarter in Mexico and the UK to strengthen our product offerings. Furthermore, a tissue machine was closed and a tissue plant was divested in the UK. These measures are aligned with our strategy to streamline production and secure capacity for future growth to increase value creation in the Consumer Tissue and Professional Hygiene business areas.

We continued our efforts to improve or exit underperforming market positions. Significantly improved profitability for Incontinence Products in North America and the discontinuation of Baby Care operations in Mexico and the hygiene business in India had a positive impact on the margin in Personal Care during the first quarter.

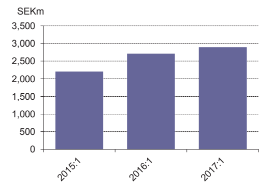
Net sales for the Group in the first quarter of 2017 rose 4.2% compared with the corresponding period a year ago. Organic sales increased 1.0%. Organic sales increased 5.2% in emerging markets, which accounted for 36% of net sales, and decreased 0.9% in mature markets.

Adjusted EBITA for the Group in the first quarter of 2017, excluding currency translation effects, acquisitions and divestments, rose 4% compared with the corresponding period a year ago. This increase was primarily attributable to higher volumes, a better price/mix, cost savings and other measures to improve profitability. Selling costs were higher, and investments were made in increased marketing activities. Higher energy and raw material costs had a negative earnings effect. The Group's adjusted EBITA margin increased 0.2 percentage points to 11.5%. Operating cash flow rose 60%. The adjusted return on capital employed increased 0.1 percentage points to 15.6%.

Net sales

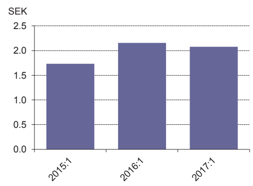


Adjusted EBITA



Excluding items affecting comparability

Earnings per share



ADJUSTED EARNINGS TREND

SEKm	1703	1603	%
Net sales	25 268	24 248	4
Cost of goods sold[1]	-18 050	-17 576	
Adjusted gross profit[1]	7 218	6 672	8
Sales, general and administration[1]	-4 301	-3 928	
Adjusted operating profit before amortization of acquisition related intangible assets (EBITA)[1]	2 917	2 744	6
Amortization of acquisition related intangible assets	-21	-31	
Adjusted operating profit[1]	2 896	2 713	7
Financial items	-266	-303	
Adjusted profit before tax[1]	2 630	2 410	9
Adjusted tax[1]	-659	-634	
Adjusted profit for the period[1]	1 971	1 776	11

[1] Excluding items affecting comparability; for amounts see page 13.

Adjusted Margins (%)			
Gross margin[1]	28,6	27,5	
EBITA margin[1]	11,5	11,3	
Operating margin[1]	11,5	11,2	
Financial net margin	-1,1	-1,2	
Profit margin[1]	10,4	10,0	
Tax[1]	-2,6	-2,6	
Net margin[1]	7,8	7,4	

[1] Excluding items affecting comparability; for amounts see page 13.

ADJUSTED EBITA BY BUSINESS AREA

SEKm	1703	1603	%
Personal Care	1,228	977	26
Consumer Tissue	1,151	1,078	7
Professional Hygiene	720	777	-7
Other	-182	-88	
Total [1]	2,917	2,744	6

[1] Excluding items affecting comparability; for amounts see page 13.

ADJUSTED OPERATING PROFIT BY BUSINESS AREA

SEKm	1703	1603	%
Personal Care	1,224	974	26
Consumer Tissue	1,149	1,061	8
Professional Hygiene	705	765	-8
Other	-182	-87	
Total [1]	2,896	2,713	7

[1] Excluding items affecting comparability; for amounts see page 13.

OPERATING CASH FLOW BY BUSINESS AREA

SEKm	1703	1603	%
Personal Care	1,063	930	14
Consumer Tissue	1,245	1,272	-2
Professional Hygiene	848	152	458
Other	-70	-420	
Total	3,086	1,934	60

GROUP

MARKET/EXTERNAL ENVIRONMENT

January-March 2017 compared with the corresponding period a year ago
The global market for hygiene products was somewhat challenging in the first quarter of 2017.

The European and North American markets for incontinence products in the healthcare sector displayed higher demand, but with continued price pressure as a result of fierce competition. The European and North American retail markets for incontinence products showed high growth. Emerging markets noted higher demand for incontinence products. The global market for incontinence products was characterized by a continued high level of competition. In Europe, demand for baby care was stable, while a slight decline was reported for feminine care. 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.

The European market for consumer tissue demonstrated 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.

NET SALES AND EARNINGS

January-March 2017 compared with the corresponding period a year ago
Net sales increased 4.2% compared with the corresponding period a year ago to SEK 25,268m (24,248). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.0%, of which volume accounted for 0.7% and price/mix for 0.3%. Organic sales decreased 0.9% in mature markets and increased 5.2% in emerging markets. Emerging markets accounted for 36% of net sales. Exchange rate effects increased net sales by 2.6%. The acquisition of Wausau Paper Corp. increased net sales by 0.6%.

Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) rose 6% (4% excluding currency translation effects and acquisitions) to SEK 2,917m (2,744). Higher volumes, a better price/mix, cost savings, the acquisition of Wausau Paper Corp. and the discontinuation of the Baby Care business in Mexico and the hygiene business in India increased earnings. Cost savings amounted to SEK 214m. Selling costs were higher, and investments were made in increased marketing activities. Higher energy and raw material costs had a negative earnings effect.

Items affecting comparability amounted to SEK -409m (-191) and include costs of approximately SEK -460m attributable to the split of the SCA Group into two listed companies. The bulk is related to foreign tax of a non-recurring nature on non-current assets outside Sweden. Furthermore, the amount includes integration costs related to the Wausau Paper Corp. acquisition totaling SEK -30m, restructuring costs of SEK -80m for the closure of a tissue machine in the UK, and other costs amounting to SEK -104m. A release of a provision relating to a competition case in Poland had a positive impact of about SEK 265m.

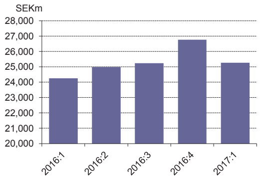
Financial items decreased to SEK -266m (-303). Lower interest had a positive impact on financial items during the period.

Adjusted profit before tax rose 9% (6% excluding currency translation effects and acquisitions) to SEK 2,630m (2,410).

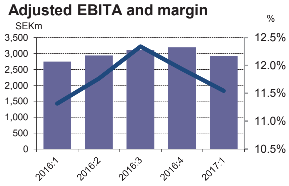
The tax expense, excluding effects of items affecting comparability, was SEK 659m (634).

Adjusted profit for the period rose 11% (8% excluding currency translation effects and acquisitions) to SEK 1,971m (1,776).

Net sales



Adjusted EBITA and margin



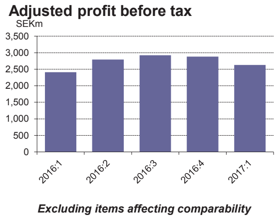
Excluding items affecting comparability

Change in net sales (%)

	1703 vs. 1603
Total	**4.2**
Price/mix	0.3
Volume	0.7
Currency	2.6
Acquisitions	0.6
Divestments	0

Change in adjusted EBITA (%)

	1703 vs. 1603
Total	**6**
Price/mix	2
Volume	4
Raw materials	-1
Energy	-1
Currency	1
Other	1



Profit for the period rose 2% (declined 1% excluding currency translation effects and acquisitions) to SEK 1,656m (1,625). Earnings per share, including items affecting comparability, were SEK 2.08 (2.15).

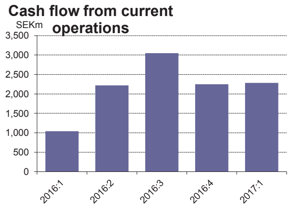
The adjusted return on capital employed was 15.6% (15.5).

CASH FLOW AND FINANCING

January-March 2017 compared with the corresponding period a year ago

The operating cash surplus amounted to SEK 4,146m (3,900). The cash flow effect of changes in working capital was SEK -253m (-1,071). Working capital as a share of net sales decreased. Current capital expenditures amounted to SEK -596m (-664). Operating cash flow was SEK 3,086m (1,934).

Financial items decreased to SEK -266m (-303). Lower interests had a positive impact on financial items during the period. Tax payments totaled SEK 627m (662). Cash flow from current operations amounted to SEK 2,282m (1,043) during the period. The improvement is mainly attributable to a lower level of tied-up capital and a higher operating cash surplus.



Strategic capital expenditures amounted to SEK -256m (-422). The net sum of acquisitions and divestments was SEK 23m (-6,474). Net cash flow totaled SEK 2,262m (-5,317).

Net debt decreased SEK 3,051m during the period, to SEK 32,122m. Excluding pension liabilities, net debt amounted to SEK 28,030m. Net cash flow reduced net debt by SEK 2,262m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, reduced net debt by SEK 779m. Exchange rate movements reduced net debt by SEK 10m.

The debt/equity ratio was 0.75 (0.53). Excluding pension liabilities, the debt/equity ratio was 0.65 (0.42). The debt payment capacity was 37% (56).

EQUITY

January–March 2017

Consolidated equity increased SEK 3,528m during the period, to SEK 43,108m. Net profit for the period increased equity by SEK 1,656m. Equity increased SEK 543m 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 reduced equity by SEK 135m after tax. Exchange rate movements, including the effects of hedges of net investments in foreign assets, after tax, increased equity by SEK 306m. Equity increased as a result of a private placement of SEK 960m to non-controlling interests in Vinda. Transactions with shareholders (SCA AB) increased equity by SEK 243m. Other items reduced equity by SEK 45m.

TAX

January–March 2017

A tax expense of SEK 659m was reported, excluding items affecting comparability. The reported tax expense corresponds to a tax rate of about 25.1% for the period.

The tax expense including items affecting comparability was SEK 565m, corresponding to a tax rate of 25.4% for the period.

EVENTS DURING THE QUARTER

SCA Hygiene AB strengthens tissue business in the UK
On January 26, 2017, SCA announced that, to meet the growing demand for high-quality tissue and strengthen the product offering in the UK, SCA is investing in a through-air drying (TAD) machine at its tissue plant in Skelmersdale. SCA Hygiene AB has also decided to close an older tissue machine in Stubbins and signed an agreement to divest its tissue plant in Chesterfield to Sidcot Group Limited. These measures are part of SCA Hygiene AB's Tissue Roadmap and are aligned with the company's strategy to streamline production and secure capacity for future growth to increase value creation in the Consumer Tissue and Professional Hygiene business areas.

Following the investment at the Skelmersdale tissue plant of approximately SEK 160m, the production capacity of high-quality TAD products will be 28,000 tons.

The cost for closing the older tissue machine in Stubbins, with an annual production capacity of 20,000 tons, is expected to amount to approximately SEK 120m and will be recognized as an item affecting comparability, of which SEK 80m was recognized in the first quarter of 2017. Approximately SEK 70m of these costs are expected to impact cash flow.

Sidcot Group Limited paid a consideration of approximately GBP 3m (approximately SEK 35m) for the production facility in Chesterfield. The facility produces mother reels but has no converting capacity. SCA Hygiene AB will have no internal need for the type of mother reels produced at the plant. The annual production capacity is 31,000 tons. An impairment loss of approximately SEK 10m was recognized as an item affecting comparability in the fourth quarter of 2016. The transaction was completed in the first quarter of 2017.

SCA Hygiene AB invests to further strengthen tissue operations in Mexico and baby diaper operations in Europe
On February 23, 2017, SCA announced that, to further strengthen competitiveness and enable future growth in the tissue operations in Mexico, the company has decided to invest about USD 105m (approximately SEK 950m) in one of the company's facilities in the country. To strengthen its baby diaper product offering in Europe, SCA Hygiene AB has also decided to invest about EUR 40m (approximately SEK 380m) in facilities in Europe. The investment in Mexico will support SCA's high-quality tissue offering under the Regio brand.

SCA Hygiene AB raises EUR 2 billion in the bond market
On March 15, 2017, SCA announced that SCA Hygiene AB, under its Euro Medium Term Note (EMTN) program, had raised EUR 2bn at an average interest rate of 0.98% and an average tenor of 6.35 years. The purpose of the transaction was to finance the acquisition of BSN medical.

EVENTS AFTER THE END OF THE QUARTER

SCA Hygiene AB's acquisition of BSN medical now closed
On April 3, 2017, SCA announced that the company's acquisition of BSN medical, a leading medical solutions company, had been closed. BSN medical develops, manufactures and sells products within wound care, compression therapy and orthopedics. The purchase price for the shares amounted to EUR 1,400m and takeover of net debt to approximately EUR 1,340m[1)]. SCA Hygiene AB consolidates BSN medical as of April 3, 2017.

BSN medical's sales for 2016 amounted to EUR 850m (SEK 8,038m) and adjusted EBITDA[2)] for 2016 was EUR 210m (SEK 1,986m). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 5.3%.

BSN medical will be included in the Personal Care business area. Together with the business unit Incontinence Care, BSN medical will form the new business unit Health and Medical Solutions. This business unit is led by Margareta Lehmann, previously President of SCA Incontinence Care.

The BSN medical acquisition is an excellent strategic fit for SCA Hygiene AB, supporting our vision, dedicated to improving well-being through leading hygiene and health solutions, two closely interlinked areas. SCA Hygiene AB's Incontinence Products business, with the global leading TENA brand, shares similar positive market characteristics, customer base 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 and Actimove, has leading market positions in several attractive medical product categories and provides a new growth platform with future industry consolidation opportunities.

The acquisition is expected to realize annual synergies of at least EUR 30m with full effect three years after closing. Restructuring costs are expected to amount to a total of approximately EUR 10m to be incurred in the first three years following completion. The BSN medical acquisition is expected to be accretive to SCA Hygiene AB's earnings per share from the first year. The company has high cash conversion and an asset-light business model. The acquisition is fully debt-funded. SCA Hygiene AB remains fully committed to retaining a solid investment grade rating.

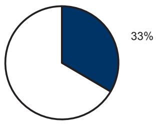
1) Based on net debt as per December 31, 2016. Final takeover of net debt will be based on March 31, 2017.
2) Excluding items affecting comparability.

SCA to become two listed companies: the forest products company SCA and the hygiene and health company Essity
On April 5, 2017, the 2017 AGM of SCA decided that all shares in the wholly owned subsidiary SCA Hygiene AB (currently undergoing a change of name to Essity Aktiebolag), comprising the SCA Group's hygiene business, will be distributed to the shareholders of SCA. The preparations for the distribution and the listing of SCA Hygiene AB are under way, and the intention is that the first day of separate trading in the two companies will be in June 2017.

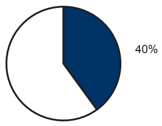
SCA has also convened an extraordinary general meeting at 12:00 CET on May 17, 2017 in Sundsvall to elect new members to the Board of SCA, who are expected to take up their new positions in conjunction with the first day of separate trading in the two companies.

Changed financial targets
On April 27, 2017, SCA announced that the financial targets for the hygiene business have been updated in conjunction with the split of the Group. The current targets for Personal Care and Tissue have been replaced with targets for the Group. The company will continue to apply targets for organic growth and adjusted return on capital employed (defined as adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA)/capital employed). The target levels have been determined on the basis of the weighted average of the previous targets, taking into account the assessed impact of the BSN medical acquisition. The new targets for the Group are now annual organic growth of above 3% and adjusted return on capital employed of above 15%.

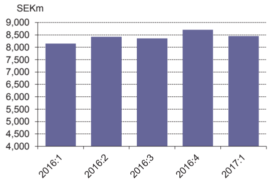
Share of Group, net sales
1703



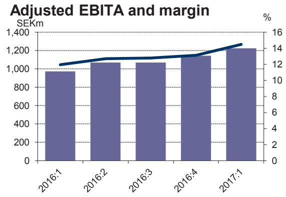
Share of Group, adjusted EBITA
1703



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1703 vs. 1603
Total	**3.8**
Price/mix	0.7
Volume	0.4
Currency	2.7
Acquisitions	0
Divestments	0

Change in adjusted EBITA (%)

	1703 vs. 1603
Total	**26**
Price/mix	5
Volume	5
Raw materials	1
Energy	0
Currency	2
Other	13

PERSONAL CARE

SEKm	1703	1603	%
Net sales	8,455	8,151	4
Adjusted EBITA*	1,228	977	26
Adjusted EBITA margin, %*	14.5	12.0	
Adjusted operating profit*	1,224	974	26
Adjusted operating margin, %*	14.5	11.9	
Adjusted return on capital employed, %*	35.4	28.9	
Operating cash flow	1,063	930	

*) Excluding restructuring costs, which are reported as items affecting comparability outside of the business area.

January-March 2017 compared with the corresponding period a year ago

Net sales increased by 3.8% to SEK 8,455m (8,151). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 1.1%, of which volume accounted for 0.4% and price/mix for 0.7%. The discontinuation 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 decreased by 0.3%. On emerging markets, which accounted for 42% of net sales, the organic sales rose by 3.1%. Exchange rate effects increased net sales by 2.7%.

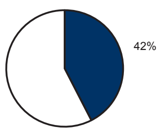
For Incontinence Products, under the globally leading TENA brand, organic sales increased 2.0%. Growth is attributable to emerging markets and North America. In Europe, the retail sector reported good growth, while lower sales to the health care sector had a negative effect on growth. For Baby Care, organic sales decreased 4.2%. The decline was mainly the result of the closure of the Baby Care businesses in Mexico and India. For Feminine Care, organic sales increased by 4.5%, attributable to emerging markets.

Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) rose 26% (24% excluding currency translation effects) to SEK 1,228m (977). EBITA was positively affected by a better price/mix, higher volumes, lower raw material costs, cost savings, increased profitability for Incontinence Products in North America and the closure of the Baby Care business in Mexico and the hygiene business in India. Investments were made in increased marketing activities.

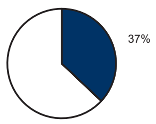
The adjusted return on capital employed, excluding items affecting comparability, was 35.4% (28.9).

The operating cash surplus amounted to SEK 1,491m (1,218). Operating cash flow increased to SEK 1,063m (930).

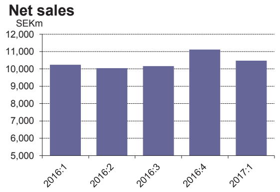
Share of Group, net sales 1703



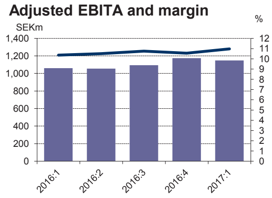
Share of Group, adjusted EBITA 1703



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1703 vs. 1603
Total	**2.3**
Price/mix	0.3
Volume	0.9
Currency	1.7
Acquisitions	0
Divestments	0

Change in adjusted EBITA (%)

	1703 vs. 1603
Total	**7**
Price/mix	-2
Volume	2
Raw materials	6
Energy	-3
Currency	3
Other	1

CONSUMER TISSUE

SEKm	1703	1603	%
Net sales	10,473	10,238	2
Adjusted EBITA*	1,151	1,078	7
Adjusted EBITA margin, %*	11.0	10.5	
Adjusted operating profit*	1,149	1,061	8
Adjusted operating margin, %*	11.0	10.4	
Adjusted return on capital employed, %*	11.4	10.6	
Operating cash flow	1,245	1,272	

*) Excluding restructuring costs, which are reported as items affecting comparability outside of the business area.

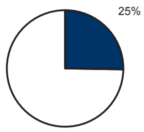
January-March 2017 compared with the corresponding period a year ago
Net sales increased 2.3% to SEK 10,473m (10,238). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 0.6%, of which volume accounted for 0.9% and price/mix for -0.3%. Organic sales decreased 1.6% in mature markets. The decline was mainly related to lower sales of products sold under retailers' brands and lower sales of mother reels. Organic sales increased 5.2% in emerging markets, which accounted for 44% of net sales. The increase was attributable to Asia, Latin America and Russia. Exchange rate effects increased net sales by 1.7%.

Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) rose 7% (4% excluding currency translation effects) to SEK 1,151m (1,078). This increase was related to higher volumes, lower raw material costs and cost savings. Lower prices and higher energy costs had a negative impact on earnings.

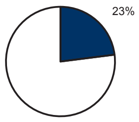
The adjusted return on capital employed, excluding items affecting comparability, was 11.4% (10.6).

The operating cash surplus increased to SEK 1,661m (1,573). Operating cash flow decreased and amounted to SEK 1,245m (1,272).

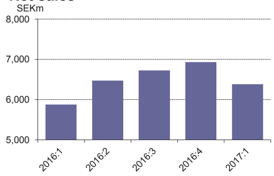
Share of Group, net sales
1703



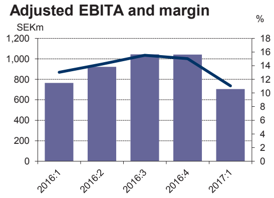
Share of Group , adjusted EBITA
1703



Net sales



Adjusted EBITA and margin



Change in net sales (%)

	1703 vs. 1603
Total	**8.6**
Price/mix	0.9
Volume	1.2
Currency	4.0
Acquisitions	2.5
Divestments	0

Change in adjusted EBITA (%)

	1703 vs. 1603
Total	**-7**
Price/mix	4
Volume	4
Raw materials	-15
Energy	0
Currency	4
Other	-4

PROFESSIONAL HYGIENE

SEKm	1703	1603	%
Net sales	6,383	5,876	9
Adjusted EBITA*	720	777	-7
Adjusted EBITA margin, %*	11.3	13.2	
Adjusted operating profit*	705	765	-8
Adjusted operating margin, %*	11.0	13.0	
Adjusted return on capital employed, %*	13.7	17.8	
Operating cash flow	848	152	

*) Excluding restructuring costs, which are reported as items affecting comparability outside of the business area.

January-March 2017 compared with the corresponding period a year ago
Net sales increased 8.6% to SEK 6,383m (5,876). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.1%, of which volume accounted for 1.2% and price/mix for 0.9%. The acquisition of Wausau Paper Corp. increased net sales by 2.5%. Organic sales in mature markets was in level with the corresponding period a year ago. Increased sales in Western Europe offset lower sales in North America. Organic sales increased 13.2% in emerging markets, which accounted for 17% of net sales. This increase was primarily attributable to Asia and Latin America. Exchange rate effects increased net sales by 4.0%.

Adjusted operating profit before amortization of acquisition-related intangible assets (EBITA) declined 7% (14% excluding currency translation effects and acquisitions) to SEK 720m (777). The decline was primarily related to higher raw material costs mainly due to significantly higher recovered paper prices. Higher selling costs had a negative earnings effect. A better price/mix, higher volumes, cost savings and the acquisition of Wausau Paper Corp. increased earnings.

The adjusted return on capital employed, excluding items affecting comparability, was 13.7% (17.8).

The operating cash surplus decreased to SEK 1,153m (1,178). Operating cash flow increased to SEK 848m (152).

The Board of Directors and President certify that the interim report gives a true and fair view of the Parent Company's and Group's operations, financial position and results of operations, and describes material risks and uncertainties facing the company and the companies included in the Group.

Stockholm, April 27, 2017
SCA Hygiene AB (publ)

Pär Boman
Chairman of the Board

Ewa Björling Board member	Maija-Liisa Friman Board member	Annemarie Gardshol Board member	Johan Malmquist Board member
Bert Nordberg Board member	Louise Svanberg Board member	Lars Rebien Sörensen Board member	Barbara Milian Thoralfsson Board member

Magnus Groth
Board member
President and CEO

Review report
SCA Hygiene AB (publ), Corp. Reg. No. 556325-5511

Introduction
We have reviewed this interim report for SCA Hygiene AB (publ.) as per March 31, 2017, and the three-month period then ended. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Approach and scope of the review
We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA) and other generally accepted auditing practices.
The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion based on a review does not give the same level of assurance as a conclusion based on an audit.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act for the Group, and in accordance with the Annual Accounts Act for the Parent Company.

Stockholm, April 27, 2017
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

FUTURE REPORTS

During 2017, quarterly reports will be published on July 18 and October 26. The year-end report for 2017 will be published on January 26, 2018.

INVITATION TO PRESS CONFERENCE ON INTERIM REPORT FOR THE FIRST QUARTER OF 2017

Media and analysts are invited to a press conference, where this interim report will be presented by Magnus Groth, President and CEO.

Time: 10:00 CET, Thursday, April 27, 2017
Location: SCA's headquarters, Waterfront Building, Klarabergsviadukten 63, Stockholm, Sweden

The presentation will be webcast at www.sca.com. To participate, call: +44 (0)20 7162 0077, +1 646 851 2407 or +46 (0)8 505 201 10. Specify "SCA" or conference ID no. 961663.

Stockholm, April 27, 2017
SCA Hygiene AB (publ)

Magnus Groth

President and CEO

For further information, please contact:

Fredrik Rystedt, CFO and Executive Vice President, +46 8 788 51 31

Johan Karlsson, Vice President Investor Relations, Group Function Communications, +46 8 788 51 30

Linda Nyberg, Vice President Media and Online, Group Function Communications, +46 8 788 51 58

Joséphine Edwall-Björklund, Senior Vice President, Group Function Communications, +46 8 788 52 34

NB:

SCA discloses the information provided herein pursuant to the Securities Markets Act. This report has been prepared in both Swedish and English versions. In case of variations in the content between the two versions, the Swedish version shall govern. The information was submitted for publication, through the agency of the contact person set out below, at 8:00 CET on April 27, 2017. This interim report has been reviewed by the company's auditors.

Karl Stoltz, Media Relations Manager, +46 8 788 51 55

CONDENSED STATEMENT OF PROFIT OR LOSS

SEKm	2017:1	2016:1	2016:4	1703	1603
Net sales	25,268	24,248	26,772	25,268	24,248
Cost of goods sold [1,2]	-18,050	-17,576	-19,131	-18,050	-17,576
Items affecting comparability [1,2]	-212	-22	-49	-212	-22
Gross profit	7,006	6,650	7,592	7,006	6,650
Sales, general and administration [1,2]	-4,330	-3,960	-4,495	-4,330	-3,960
Items affecting comparability [1,2]	-109	-164	-630	-109	-164
Share of profits of associates and joint ventures	29	32	49	29	32
Operating profit before amortization of acquisition related intangible assets	2,596	2,558	2,516	2,596	2,558
Amortization of acquisition related intangible assets[1]	-21	-31	-51	-21	-31
Items affecting comparability[1,2]	-88	-5	-9	-88	-5
Operating profit	2,487	2,522	2,456	2,487	2,522
Financial items	-266	-303	-265	-266	-303
Profit before tax	2,221	2,219	2,191	2,221	2,219
Tax	-565	-594	-1,021	-565	-594
Profit for the period	1,656	1,625	1,170	1,656	1,625
Earnings attributable to:					
Owners of the parent	1,460	1,512	985	1,460	1,512
Non-controlling interests	196	113	185	196	113
Average no. of shares before dilution, millions[3]	702.3	702.3	702.3	702.3	702.3
Average no. of shares after dilution, millions[3]	702.3	702.3	702.3	702.3	702.3
Earnings per share, SEK - owners of the parent					
- before dilution effects	2.08	2.15	1.40	2.08	2.15
- after dilution effects	2.08	2.15	1.40	2.08	2.15
[1]Of which depreciation	-1,270	-1,223	-1,350	-1,270	-1,223
[2]Of which impairment	-186	-1	-146	-186	-1
[3]Number of shares corresponds to the number of issued shares in SCA					
Gross margin	27.7	27.4	28.4	27.7	27.4
EBITA margin	10.3	10.5	9.4	10.3	10.5
Operating margin	9.8	10.4	9.2	9.8	10.4
Financial net margin	-1.1	-1.2	-1.0	-1.1	-1.2
Profit margin	8.7	9.2	8.2	8.7	9.2
Tax	-2.2	-2.4	-3.8	-2.2	-2.4
Net margin	6.5	6.8	4.4	6.5	6.8
Adjusted, excluding items affecting comparability:					
Gross margin	28.6	27.5	28.5	28.6	27.5
EBITA margin	11.5	11.3	11.9	11.5	11.3
Operating margin	11.5	11.2	11.7	11.5	11.2
Financial net margin	-1.1	-1.2	-1.0	-1.1	-1.2
Profit margin	10.4	10.0	10.7	10.4	10.0
Tax	-2.6	-2.6	-4.1	-2.6	-2.6
Net margin	7.8	7.4	6.6	7.8	7.4

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

SEKm	2017:1	2016:1	2016:4	1703	1603
Profit for the period	1,656	1,625	1,170	1,656	1,625
Other comprehensive income for the period					
Items that may not be reclassified to the income statement					
Actuarial gains/losses on defined benefit pension plans	779	-1,833	3,501	779	-1,833
Income tax attributable to components of other comprehensive income	-236	455	-795	-236	455
	543	-1,378	2,706	543	-1,378
Items that have been or may be reclassified subsequently to the income statement					
Available-for-sale financial assets	1	-2	-3	1	-2
Cash flow hedges	-187	-25	232	-187	-25
Translation differences in foreign operations	443	160	238	443	160
Gains/losses from hedges of net investments in foreign operations	-177	-464	648	-177	-464
Other comprehensive income from associated companies	-29	-24	18	-29	-24
Income tax attributable to components of other comprehensive income	91	117	-208	91	117
	142	-238	925	142	-238
Other comprehensive income for the period, net of tax	**685**	-1,616	3,631	**685**	-1,616
Total comprehensive income for the period	**2,341**	9	4,801	**2,341**	9
Total comprehensive income attributable to:					
Owners of the parent	2,167	-41	4,550	2,167	-41
Non-controlling interests	174	50	251	174	50

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	1703	1603
Attributable to owners of the parent		
Opening balance, January 1	33,204	42,986
Total comprehensive income for the period	2,167	-41
Transaction with owner (Svenska Cellulosa Aktiebolaget SCA)[1]	243	453
Private placement to non-controlling interest	499	0
Private placement to non-controlling interest, dilution	-287	0
Closing balance	35,826	43,398
Non-controlling interests		
Opening balance, January 1	6,376	5,289
Total comprehensive income for the period	174	50
Dividend	-16	-13
Private placement to non-controlling interest	461	0
Private placement to non-controlling interest, dilution	287	0
Closing balance	7,282	5,326
Total equity, closing balance	43,108	48,724

[1] Specification of transaction with owner (Svenska Cellulosa Aktiebolaget SCA)

Received contribution/given contribution	194	43
Tax effects	49	410
Total	243	453

CONSOLIDATED OPERATING CASH FLOW STATEMENT

SEKm	1703	1603
Operating cash surplus	4,146	3,900
Change in working capital	-253	-1,071
Current capital expenditures, net	-596	-664
Restructuring costs, etc.	-211	-231
Operating cash flow	3,086	1,934
Financial items	-266	-303
Income taxes paid	-627	-662
Other	89	74
Cash flow from current operations	2,282	1,043
Acquisitions	0	-6,492
Strategic capital expenditures in non-current assets	-256	-422
Divestments	23	18
Cash flow before dividend	2,049	-5,853
Private placement to non-controlling interest	18	0
Dividend to non-controlling interests	-16	-13
Transactions with shareholders	211	549
Net cash flow	2,262	-5,317
Net debt at the start of the period	-35,173	-19,058
Net cash flow	2,262	-5,317
Remeasurement to equity	779	-1,834
Translation differences	10	414
Net debt at the end of the period	-32,122	-25,795
Debt/equity ratio	0.75	0.53
Debt payment capacity, %	37	56

CONSOLIDATED CASH FLOW STATEMENT

SEKm	1703	1603
Operating activities		
Profit before tax	2,221	2,219
Adjustment for non-cash items[1]	1,545	1,211
	3,766	3,430
Paid tax	-627	-662
Cash flow from operating activities before changes in working capital	3,139	2,768
Cash flow from changes in working capital		
Change in inventories	-606	-43
Change in operating receivables	342	158
Change in operating liabilities	12	-1,186
Cash flow from operating activities	2,887	1,697
Investing activities		
Company acquisitions	0	-4,387
Divestments	23	18
Investments in intangible assets and property, plant and equipment	-880	-1,091
Sale of property, plant and equipment	31	5
Loans granted to external parties	-297	-138
Cash flow from investing activities	-1,123	-5,593
Financing activities		
Private placement to non-controlling interests	18	0
Change in receivable from Group companies	-927	-181
Loans raised	29,977	6,535
Amortization of debt	-4,654	-3,394
Dividend to non-controlling interests	-16	-13
Transactions with shareholders	211	549
Cash flow from financing activities	24,609	3,496
Cash flow for the period	26,373	-400
Cash and cash equivalents at the beginning of the period	4,244	4,828
Exchange differences in cash and cash equivalents	-1	9
Cash and cash equivalents at the end of the period	30,616	4,437
Cash flow from operating activities per share, SEK	4.11	2.42

Reconciliation with consolidated operating cash flow statement		
Cash flow for the period	26,373	-400
Amortization of debt	4,654	3,394
Loans raised	-29,977	-6,535
Loans granted to external parties	297	138
Investment through financial lease	-3	0
Change in receivable from Group companies	927	181
Net debt in acquired and divested operations	0	-2,105
Accrued interest	-9	10
Net cash flow according to consolidated operating cash flow statement	2,262	-5,317

[1] *Depreciation/amortization and impairment of non-current assets*	***1,457***	***1,224***
Gains/loss on assets sales and swaps	***8***	***-1***
Reversal of provision related to antitrust cases	***-266***	***0***
Gain/loss on divestments	***-1***	***0***
Unpaid items relating to efficiency program	***-107***	***0***
Payments related to efficiency program already recognized	***-121***	***-77***
Provision related to one-time foreign tax on non-current assets	***450***	***0***
Other	***125***	***65***
Total	***1,545***	***1,211***

CONSOLIDATED BALANCE SHEET

SEKm	March 31, 2017	December 31, 2016
Assets		
Goodwill	19,099	19,253
Other intangible assets	7,833	7,665
Buildings, land, machinery and equipment	47,882	47,494
Participation in joint ventures and associates	1,045	1,096
Shares and participation	33	32
Surplus in funded pension plans	530	335
Non-current receivables, Group companies	1	0
Non-current financial receivables, Group companies	0	3
Non-current financial assets	620	714
Deferred tax assets	1,565	1,457
Other non-current assets	218	241
Total non-current assets	78,826	78,290
Inventories	11,484	10,944
Trade receivables	15,628	15,843
Current tax assets	867	740
Current receivables, Group companies	36	57
Current financial receivables, Group companies	2,362	1,433
Other current receivables	2,346	2,333
Current financial assets	518	244
Non-current assets held for sale	130	156
Cash and cash equivalents[1]	30,616	4,244
Total current assets	63,987	35,994
Total assets	142,813	114,284
Equity		
Share capital	0	0
Other capital provided	0	0
Reserves	4,254	4,061
Retained earnings	31,572	29,143
Attributable to owner of the Parent	35,826	33,204
Non-controlling interests	7,282	6,376
Total equity	43,108	39,580
Liabilities		
Non-current financial liabilities[1]	51,593	31,299
Non-current liabilities, Group companies	29	48
Non-current financial liabilities, Group companies	0	0
Provisions for pensions	4,622	5,273
Deferred tax liabilities	3,938	3,872
Other non-current provisions	1,182	1,407
Other non-current liabilities	85	72
Total non-current liabilities	61,449	41,971
Current financial liabilities	10,069	5,089
Current liabilities, Group companies	178	259
Current financial liabilities, Group companies	484	485
Trade payables	12,812	12,972
Current tax liabilities	1,041	915
Current provisions	1,645	1,409
Other current liabilities	12,027	11,604
Total current liabilities	38,256	32,733
Total liabilities	99,705	74,704
Total equity and liabilities	142,813	114,284

[1]The increase in cash and cash equivalents and non-current financial liabilities was mainly attributable to newly raised loans in connection with the financing of the acquisition of BSN medical. The acquisition was closed on April 3, 2017.

CONSOLIDATED BALANCE SHEET (cont.)

SEKm	March 31, 2017	December 31, 2016
Debt/equity ratio	0.75	0.89
Equity/assets ratio	25%	29%
Equity	43,108	39,580
Equity per share, SEK	61	56
Return on equity	9.5%	9.3%
Return on equity excluding items affecting comparability	15.3%	14.5%
Capital employed	75,230	74,753
- of which working capital	3,831	4,143
Return on capital employed*	11.8%	14.5%
Return on capital employed* excluding items affecting comparability	16.3%	16.2%
Net debt	32,122	35,173
Provisions for restructuring costs are included in the balance sheet as follows		
-Other provisions**	1,182	1,407
-Operating liabilities	638	866
**) of which, provision for tax risks	558	516

*) rolling 12 months

NET SALES (business area reporting)

SEKm	1703	1603	2017:1	2016:4	2016:3	2016:2	2016:1	2015:4
Personal Care	8,455	8,151	8,455	8,711	8,362	8,427	8,151	8,681
Consumer Tissue	10,473	10,238	10,473	11,115	10,164	10,043	10,238	10,630
Professional Hygiene	6,383	5,876	6,383	6,929	6,725	6,471	5,876	5,736
Other	-43	-17	-43	17	-16	42	-17	2
Total net sales	25,268	24,248	25,268	26,772	25,235	24,983	24,248	25,049

ADJUSTED EBITA (business area reporting)

SEKm	1703	1603	2017:1	2016:4	2016:3	2016:2	2016:1	2015:4
Personal Care	1,228	977	1,228	1,161	1,072	1,073	977	1,088
Consumer Tissue	1,151	1,078	1,151	1,190	1,110	1,072	1,078	1,052
Professional Hygiene	720	777	720	1,059	1,060	940	777	918
Other	-182	-88	-182	-215	-128	-146	-88	-172
Total adjusted EBITA	2,917	2,744	2,917	3,195	3,114	2,939	2,744	2,886

ADJUSTED OPERATING PROFIT (business area reporting)

SEKm	1703	1603	2017:1	2016:4	2016:3	2016:2	2016:1	2015:4
Personal Care	1,224	974	1,224	1,143	1,068	1,070	974	1,086
Consumer Tissue	1,149	1,061	1,149	1,173	1,093	1,055	1,061	1,035
Professional Hygiene	705	765	705	1,042	1,044	922	765	908
Other	-182	-87	-182	-214	-129	-147	-87	-172
Total adjusted operating profit [1]	2,896	2,713	2,896	3,144	3,076	2,900	2,713	2,857
Financial items	-266	-303	-266	-265	-156	-111	-303	-233
Adjusted profit before tax [1]	2,630	2,410	2,630	2,879	2,920	2,789	2,410	2,624
Adjusted tax	-659	-634	-659	-1,096	-451	-2,174	-634	-913
Adjusted net profit for the period [2]	1,971	1,776	1,971	1,783	2,469	615	1,776	1,711
[1] Excluding items affecting comparability before tax amounting to:	-409	-191	-409	-688	-714	-1,232	-191	773
[2] Excluding items affecting comparability after tax amounting to:	-315	-151	-315	-613	-597	-1,040	-151	816

ADJUSTED EBITA MARGIN (business area reporting)

%	1703	1603	2017:1	2016:4	2016:3	2016:2	2016:1	2015:4
Personal Care	14.5	12.0	14.5	13.3	12.8	12.7	12.0	12.5
Consumer Tissue	11.0	10.5	11.0	10.7	10.9	10.7	10.5	9.9
Professional Hygiene	11.3	13.2	11.3	15.3	15.8	14.5	13.2	16.0

STATEMENT OF PROFIT OR LOSS

SEKm	2017:1	2016:4	2016:3	2016:2	2016:1
Net sales	25,268	26,772	25,235	24,983	24,248
Cost of goods sold	-18,050	-19,131	-17,881	-17,850	-17,576
Items affecting comparability	-212	-49	-353	-108	-22
Gross profit	7,006	7,592	7,001	7,025	6,650
Sales, general and administration	-4,330	-4,495	-4,283	-4,227	-3,960
Items affecting comparability	-109	-630	-213	-1,106	-164
Share of profits of associates and joint ventures	29	49	43	33	32
EBITA	2,596	2,516	2,548	1,725	2,558
Amortization of acquisition related intangible assets	-21	-51	-38	-39	-31
Items affecting comparability	-88	-9	-148	-18	-5
Operating profit	2,487	2,456	2,362	1,668	2,522
Financial items	-266	-265	-156	-111	-303
Profit before tax	2,221	2,191	2,206	1,557	2,219
Taxes	-565	-1,021	-334	-1,982	-594
Net profit for the period	1,656	1,170	1,872	-425	1,625

INCOME STATEMENT PARENT COMPANY

SEKm	1703	1603
Other operating expenses	-178	0
Other operating income	8	0
Operating profit	-170	0
Financial items	3,879	0
Profit before tax	3,709	0
Tax	85	0
Net profit for the period	3,794	0

BALANCE SHEET PARENT COMPANY

SEKm	March 31, 2017	December 31, 2016
Intangible assets	0	0
Tangible assets	6	7
Financial assets	167,815	167,852
Total non-current assets	167,821	167,859
Total current assets	883	149
Total assets	168,704	168,008
Restricted equity	0	0
Unrestricted equity	78,780	74,986
Total equity	78,780	74,986
Untaxed reserves	0	0
Provisions	848	839
Non-current liabilities	45,265	23,006
Current liabilities	43,811	69,177
Total equity, provisions and liabilities	168,704	168,008

Events during the quarter

During the first quarter of 2017, preparations continued ahead of a potential distribution of shares in SCA Hygiene AB, the Group's hygiene business, to SCA's shareholders. Prior to year-end 2016, all assets and liabilities attributable to the hygiene business and head office activities, including pension obligations and financial agreements, were transferred from SCA to SCA Hygiene AB. All employment contracts in Svenska Cellulosa Aktiebolaget were transferred to SCA Hygiene AB as of January 1, 2017. Under law, the transfer of shares in SCA Försäkringsaktiebolag requires that the Swedish Financial Supervisory Authority approves the ownership change, and an application requesting such approval was submitted during the quarter. During the quarter, the company increased its external borrowing by SEK 27,295m, mainly due to the acquisition of BSN medical.

Events after the end of the quarter

At SCA's Annual General Meeting on April 5, 2017, it was announced that all shares in SCA Hygiene AB would be distributed to SCA's shareholders on the record date determined by the Board. Furthermore, it was announced that the company would be renamed Essity Aktiebolag.

NOTES

1 ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34 and recommendation RFR 1 of the Swedish Financial Reporting Board (RFR), and with regards to the Parent Company, RFR 2.
Effective January 1, 2017, SCA applies the following new or amended International Financial Reporting Standards (IFRS):

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses
- Amendments to IAS 7: Disclosure Initiative

These amendments are not judged to have any material impact on the Group's or Parent Company's result of operations or financial position.

In other respects, the accounting principles applied correspond to those described in the 2016 Annual Report.

At SCA's Annual General Meeting on April 5, 2017, it was decided to distribute the hygiene business. Accordingly, a review has been conducted in accordance with IFRS 8 Operating Segments. SCA Hygiene AB decided to divide operations into three segments, with Tissue being split into Consumer Tissue and Professional Hygiene. In addition, Personal Care will continue to form a separate segment and will also include, as of the second quarter, the new acquisition BSN medical, Medical Solutions, which is in line with how the new organization will be developed and managed in the future. Comparative periods have been restated in the corresponding manner.

SCA Hygiene AB has also decided to continue to present a function-based income statement, but increase the number of lines in the income statement by reporting amortization for acquisition-related intangible assets on a separate line, thereby making it easier to compare results with other companies irrespective of whether business activities are based on acquisitions or organic growth. In addition, the company has decided to introduce EBITA as a subtotal in the consolidated income statement, refer to Note 6 for further information.

2 RISKS AND UNCERTAINTIES

SCA Hygiene AB's risk exposure and risk management are described on pages 25-31 of the 2016 SCA Hygiene AB Annual Report. No significant changes have taken place that have affected the reported risks.

Risks in conjunction with company acquisitions are analyzed in the due diligence processes that SCA carries out prior to all acquisitions. In cases where acquisitions have been carried out that may affect the assessment of SCA's risk exposure, these are described under the heading "Other events" in the interim reports.

Processes for risk management
SCA's Board determines the Group's strategic direction based on recommendations from the Executive Management Team. Responsibility for the long-term, overall management of strategic risks corresponds to the company's delegation structure, from the Board to the CEO and from the CEO to the business unit presidents. This means that most operational risks are managed by SCA's business units at the local level, but that they are coordinated when considered necessary. The tools used in this coordination consist primarily of the business units' regular reporting and the annual strategy process, where risks and risk management are a part of the process.

SCA's financial risk management is centralized, as is the Group's internal bank for the Group companies' financial transactions and management of the Group's energy risks. Financial risks are managed in accordance with the Group's finance policy, which is adopted by SCA's Board and which – together with SCA's energy risk policy – makes up a framework for risk management. Risks are aggregated and monitored on a regular basis to ensure compliance with these guidelines. SCA has also centralized other risk management.

SCA has a staff function for internal audit, which monitors compliance in the organization with the Group's policies.

3 RELATED PARTY TRANSACTIONS

The SCA Hygiene Group has had a number of transactions with units in Forest Products and the Parent Company SCA AB. These transactions and dealings are outlined in the table below. Purchases from Forest Products relate primarily to pulp used in the SCA Hygiene Group's manufacturing process. Pricing between units has adhered to the transfer pricing policy that applies at the SCA Group.
Joint ventures and joint arrangements are classified as transactions with related parties. Transactions with these parties are not of a material nature and are not specified separately below. Remuneration also occurs in the form of salaries and other remuneration, costs and obligations.
Transactions in the form of lending and reallocation of net debt have, in conjunction with SCA Hygiene AB's acquisition of the hygiene business, been classified as transactions with owners. The transactions with owners that have been carried out via equity are presented in the Consolidated statement of changes in equity.

Transactions and dealings with Group companies

SEKm	**1703**	**1612**	**1603**	**1512**	**1412**
Sales	-	-	-	-	-
Purchases	132	511	126	482	424
Other income	-	56	14	57	14
Financial income	43	108	28	132	230
Financial expenses	-7	-2	-	-2	-7
Non-current receivables, Group companies	1	-	35	39	11
Non-current financial receivables, Group companies	-	3	3	3	3
Current receivables, Group companies	36	57	76	166	117
of which trade receivables	*12*	*18*	*20*	*79*	*39*
of which currency derivatives	*13*	*33*	*4*	*10*	*30*
of which energy derivatives	*11*	*6*	*52*	*77*	*48*
Current financial receivables, Group companies	2,362	1,433	12,331	12,207	12,764
Non-current liabilities, Group companies	29	48	1	-	4
of which currency derivatives	*8*	*12*	*0*	*0*	*3*
of which energy derivatives	*21*	*36*	*1*	*0*	*1*
Non-current financial liabilities, Group companies	-	-	-	-	-
Current liabilities, Group companies	178	259	234	341	273
of which trade payables	*90*	*100*	*100*	*106*	*88*
of which currency derivatives	*34*	*64*	*103*	*29*	*1*
of which energy derivatives	*25*	*58*	*8*	*3*	*1*
of which other current liabilities	*29*	*37*	*23*	*203*	*183*
Current financial liabilities, Group companies	484	485	801	852	1,797

4 FINANCIAL INSTRUMENTS PER CATEGORY

Distribution by level for measurement at fair value.

SEKm	Carrying amount in the balance sheet	Measured at fair value through profit or loss	Derivatives used for hedge accounting	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Of which fair value by level[1]	
March 31, 2017						1	2
Derivatives	884	294	590	-	-	-	884
Non-current financial assets	83	-	-	83	-	83	-
Total assets	967	294	590	83	-	83	884
Derivatives	766	577	189	-	-	-	766
Financial liabilities							
Current financial liabilities	9,361	-	-	-	9,361	-	-
Non-current financial liabilities	51,556	15,901	-	-	35,655	-	15,901
Total liabilities	61,683	16,478	189	0	45,016	0	16,667
December 31, 2016							
Derivatives	1,259	440	819	-	-	-	1,259
Non-current financial assets	82	-	-	82	-	82	-
Total assets	1,341	440	819	82	-	82	1,259
Derivatives	705	576	129	-	-	-	705
Financial liabilities							
Current financial liabilities	4,656	425	-	-	4,231	-	425
Non-current financial liabilities	31,338	16,021	-	-	15,317	-	16,021
Total liabilities	36,699	17,022	129	-	19,548	-	17,151

[1] No financial instruments have been classified to level 3

The total fair value of the above financial liabilities is SEK 61,707m (36,719). The fair value of trade receivables, other current and non-current receivables, cash and cash equivalents, trade payables and other current and non-current liabilities is estimated to be equal to their carrying amount.

No transfers between level 1 and 2 were made during the period.

The fair value of financial instruments is calculated based on current market quotations on the balance sheet date. The value of derivatives is based on published prices in an active market. The fair value of debt instruments is set using valuation models, such as discounting of future cash flows to quoted market interest rates for the respective durations.

5 ACQUISITIONS AND DIVESTMENTS

Acquisitions after the end of the reporting period
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 wound care, compression therapy and orthopedics. The purchase price for the shares was EUR 1,400m, and takeover of net debt amounted to approximately EUR 1,340m. The acquisition is fully debt-funded. The transaction, which was subject to customary regulatory approvals, was closed on April 3, 2017.
A preliminary purchase price allocation is presented below. The preliminary purchase price allocation is based on the first-quarter report that SCA has received from BSN. SCA did not have access to any more detailed information regarding the items included in the opening balances since the acquisition was implemented on April 3. This means that fair value adjustments and calculations of intangible assets have not yet been performed, and goodwill has thus only been preliminarily calculated.

BSN medical's reported net sales for 2016 amounted to EUR 850m (SEK 8,038m), adjusted EBITDA to EUR 210m (SEK 1,986m) and adjusted EBITA to EUR 197m (SEK 1,863m).

Purchase price allocation, BSN medical	Preliminary
SEKm	
Intangible assets	9,995
Non-current assets	1,447
Current assets	3,121
Cash and cash equivalents	497
Net debt	-13,184
Provisions and other non-current liabilities	-2,684
Operating liabilities	-1,392
Net identifiable assets and liabilities	**-2,200**
Goodwill	15,474
Non-controlling interests	86
Consideration paid	**13,359**
Consideration paid	-13,359
Cash and cash equivalents in acquired operations	497
Effect on the Group's cash and cash equivalents (Consolidated cash flow statement)	**-12,863**
Acquired net debt excluding cash and cash equivalents	-13,184
Acquisition of operations including net debt taken over (Consolidated operating cash flow statement)	**-26,047**

6 Use of non-IFRS performance measures

During 2016, guidelines for Alternative Performance Measures (APMs) for companies with securities listed on a regulated market in the EU were issued by the European Securities and Markets Authority (ESMA). These guidelines are to be applied for APMs not supported under IFRS.

This quarterly report refers to a number of performance measures not defined in IFRS. These performance measures are used to help investors, management and other stakeholders analyze the company's operations. These IFRS measures may differ from similarly titled measures among other companies. SCA Hygiene's 2016 Annual Report describes the various IFRS performance measures that are used as a complement to the financial information that is presented in accordance with IFRS. A number of IFRS performance measures, such as EBITA, have been added since the Annual Report was published and these are described below. Tables are also presented that show how the performance measures have been calculated.

It is important that the SCA Hygiene Group maintains an effective capital structure, while at the same time ensuring long-term access to loan financing. Cash flow in relation to net debt shall take into account the target to maintain a solid investment grade rating. A number of financial performance measures and how these are used to analyze the company's objective are described below.

CALCULATION OF FINANCIAL PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

Return measures – Return is a financial term that describes how much the value of an asset changes from an earlier point in time

Non-IFRS performance measure	Description	Reason for use of the measure
Return on capital employed, ROCE	Accumulated return on capital employed is calculated as 12-month rolling operating profit before amortization of acquisition-related intangible assets (EBITA) as a percentage of an average of capital employed during the five most recent quarters. The corresponding key figure for a single quarter is calculated as operating profit before amortization of acquisition-related intangible assets (EBITA) for the quarter multiplied by four as a percentage of capital employed for the two most recent quarters.	This is the central ratio for measuring return on capital tied up in operations.

Non-IFRS performance measure	Description	Reason for use of the measure
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 operating profit before amortization of acquisition-related intangible assets (EBITA) for the quarter, excluding items affecting comparability, multiplied by four as a percentage of capital employed for the two most recent quarters.	This is the central ratio for measuring return on capital tied up in operations.
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.
EBITA margin	Operating profit before amortization of acquisition-related intangible assets as a percentage of net sales for the year.	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 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 earnings comparisons with other companies, regardless of whether business activities are based on acquisitions or organic growth.
Adjusted operating margin	Operating profit, excluding items affecting comparability, as a percentage of net sales for the year.	Adjusted operating margin is a key measure together with sales growth and capital turnover ratio for monitoring value creation.
Adjusted operating profit	Adjusted operating profit is calculated as operating profit before financial items and tax and 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.

Capital employed

SEKm	1703	1612
Total assets	142,813	114,284
-Financial assets	-34,646	-6,973
-Non-current non-interest bearing liabilities	-5,234	-5,399
-Current non-interest bearing liabilities	-27,703	-27,159
Capital employed	75,230	74,753

SEKm	2017:1	2016:4	2016:3	2016:2	2016:1
Personal Care	14,051	13,665	12,680	13,577	13,904
Consumer Tissue	40,898	40,082	41,160	40,963	40,132
Professional Hygiene	20,915	21,253	20,858	20,942	20,773
Other	-634	-247	163	-1,224	-289
Capital employed	75,230	74,753	74,861	74,258	74,520

Working capital

SEKm	1703	1612
Inventories	11,484	10,944
Accounts receivables	15,628	15,843
Other current receivables	2,382	2,390
Accounts payables	-12,812	-12,972
Other current liabilities	-12,205	-11,863
Adjustments	-646	-199
Working capital	3,831	4,143

Net debt

SEKm	1703	1612
Surplus in funded pension plans	530	335
Non-current financial assets	620	717
Current financial assets	2,880	1,677
Cash and cash equivalents	30,616	4,244
Financial assets	34,646	6,973
Non-current financial liabilities	51,593	31,299
Provisions for pensions	4,622	5,273
Current financial liabilities	10,553	5,574
Financial liabilities	66,768	42,146
Net debt	32,122	35,173

EBITA

SEKm	1703	1603
Operating profit	2,487	2522
- Amortization of acquisition-related intagible assets	21	31
-Items affecting comparability, amortization of acquisition-related intangible assets	88	5
Operating profit before amortization of acquisition-related intangible assets	2,596	2,558
EBITA margin	10.3	10.5
- Items affecting comparability cost of goods sold	212	22
- Items affecting comparability sales- and administration costs	109	164
EBITA	2,917	2,744
Adjusted EBITA margin	11.5%	11.3%

Operating cash flow

SEKm	1703	1603
Personal Care		
Operating cash surplus	1,491	1,218
Change in working capital	-263	-115
Current capital expenditures, net	-174	-144
Restructuring costs, etc.	9	-29
Operating cash flow	1,063	930
Consumer Tissue		
Operating cash surplus	1,661	1,573
Change in working capital	77	42
Current capital expenditures, net	-286	-277
Restructuring costs, etc.	-207	-66
Operating cash flow	1,245	1,272
Professional Hygiene		
Operating cash surplus	1,153	1,178
Change in working capital	-92	-742
Current capital expenditures, net	-105	-210
Restructuring costs, etc.	-108	-74
Operating cash flow	848	152

Organic sales

SEKm	1703
Personal Care	
Organic sales	87
Currency effect*	216
Acquisition/Disposals	0
Reported change	303
Consumer Tissue	
Organic sales	60
Currency effect*	175
Acquisition/Disposals	0
Reported change	235
Professional Hygiene	
Organic sales	124
Currency effect*	233
Acquisition/Disposals	149
Reported change	506
Hygiene Group	
Organic sales	246
Currency effect*	625
Acquisition/Disposals	149
Reported change	1,020

* Consists only of currency translation effects

Financial data for the financial year 2014–2016

Financial statements, Group

Contents, Group notes

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 F-74–F-79

G. Other

pages F-80–F-85

Consolidated income statement IS

		2016		2015		2014	
Group	**Note**	**SEKm**	**EURm[1)]**	**SEKm**	**EURm[1)]**	**SEKm**	**EURm[1)]**
Net sales	B1	101,238	10,706	98,519	10,537	87,997	9,682
Cost of goods sold	B2	–72,438	–7,661	–71,898	- 7,689	–64,081	–7,051
Items affecting comparability - cost of goods sold	B2	–532	–56	–267	–29	–441	–49
Gross profit		**28,268**	**2,989**	**26,354**	**2,819**	**23,475**	**2,582**
Sales, general and administration	B2	–16,965	–1,794	–16,216	–1,734	–14,527	–1,598
Items affecting comparability - sales, general and administration	B2	–2,113	–223	–25 [2)]	–3 [2)]	–568	–62
Share of profits of associates and joint ventures		157	17	198	21	106	12
Operating profit before amortization of acquisition related intangible assets (EBITA)		**9,347**	**989**	**10,311**	**1,103**	**8,486**	**934**
Amortization of acquisition related intangible assets	B2	–159	–17	–133	–14	–126	–14
Items affecting comparability - acquisition-related intangible assets	B2	–180	–19	–494	–53	–	–
Operating profit		**9,008**	**953**	**9,684 [2)]**	**1,036 [2)]**	**8,360**	**920**
Financial income	E7	202	21	312 [3)]	33 [3)]	416	46
Financial expenses	E7	–1,037	–109	–1,140	–121	–1,156	–128
Profit before tax		**8,173**	**865**	**8,856**	**948**	**7,620**	**838**
Tax	B4	–3,931	–416	–2,278	–244	–1,939	–213
Profit for the period		**4,242**	**449**	**6,578**	**704**	**5,681**	**625**
Earnings attributable to:							
Owners of the Parent		3,800	402	6,129	656	5,212	573
Non-controlling interests		442	47	449	48	469	52
Earnings per share							
Earnings per share, SEK – owners of the Parent							
before dilution effects		5.4	0.6	8.7	0.9	7.4	0.8
after dilution effects		5.4	0.6	8.7	0.9	7.4	0.8
Profit for the period attributable to owners of the Parent		**3,800**	**402**	**6,129**	**656**	**5,212**	**573**
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 9.46 (9.35; 9.09) was used.
2) Includes the sale of securities, SEK 970m, EUR 103.7m.
3) Excludes the sale of securities, SEK 970m, EUR 103.7m.

Consolidated statement of comprehensive income

SEKm	**2016**	**2015**	**2014**
IS **Profit for the period**	**4,242**	**6,578**	**5,681**
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	–1,569	1,933	–2,595
Income tax attributable to components in other comprehensive income	421	–418	587
	–1,148	**1,515**	**–2,008**
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	140
Transferred to profit or loss upon sale	–	–970	–
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	275	–450	–463
Transferred to profit or loss for the period	274	342	344
Transferred to cost of hedged investments	–19	–	3
Translation differences in foreign operations	2,742	–1,944	5,125
Result from hedging of net investments in foreign operations	–437	–58	–1,497
Other comprehensive income/loss from associates	12	–17	–
Income tax attributable to components in other comprehensive income	–41	33	367
	2,805	**–2,746**	**4,019**
Other comprehensive income/loss for the period, net after tax	**1,657**	**–1,231**	**2,011**
Total comprehensive income/loss for the period	**5,899**	**5,347**	**7,692**
Total comprehensive income attributable to:			
Owners of the Parent	5,222	5,113	6,651
Non-controlling interests	677	234	1,041

By operating segment	**Net sales**			**Operating profit[1)]**		
SEKm	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Personal Care	33,651	34,344	31,066	4,255	3,990	3,526
Professional Hygiene	26,001	22,527	19,943	3,773	3,444	2,854
Consumer Tissue	41,560	41,657	37,051	4,382	3,773	3,798
Other	26	–9	–45	–577	–737	–809
Intra-Group deliveries	–	–	–18	–	–	–
Total	**101,238**	**98,519**	**87,997**	**11,833**	**10,470**	**9,369**

1) Excluding items affecting comparability.

Consolidated statement of change in equity

Group	2016	2015	2014
Attributable to owners of the Parent			
Value, January 1	**42,986**	**39,675**	**37,891**
Total comprehensive income for the period	5,222	5,113	6,651
Transactions with shareholders (for further information see note G4 Transactions with related parties)	–14,679	–1,762	–4,706
Private placement to non-controlling interests	240	–	–
Private placement to non-controlling interests, dilution	–110	–	–
Issue expenses, private placement	–4	–	–
Acquisition of non-controlling interests	–799	–40	–112
Acquisition of non-controlling interests, dilution	348	–	–
Issue costs in associates	–	–	–49
Value, December 31	**33,204**	**42,986**	**39,675**
Non-controlling interests			
Value, January 1	**5,289**	**5,250**	**4,540**
Total comprehensive income for the period	677	234	1,041
Dividend	–190	–216	–228
Private placement to non-controlling interests	199	–	–
Private placement to non-controlling interests, dilution	110	–	–
Issue expenses, private placement	–4	–	–
Acquisition of non-controlling interests	643	21	–61
Acquisition of non-controlling interests, dilution	–348	–	–
Effect of confirmation of acquisition balance sheet	–	–	–42
Value, December 31	**6,376**	**5,289**	**5,250**
Total equity, value December 31	**39,580**	**48,275**	**44,925**

For further information, see Note E9 Equity.

Consolidated operating cash flow statement, supplementary disclosure OCF

		2016		2015		2014	
Group	**Note**	**SEKm**	**EURm[1]**	**SEKm**	**EURm[1]**	**SEKm**	**EURm[1]**
IS Net sales		101,238	10,706	98,519	10,537	87,997	9,682
Operating expenses		–84,498	–8,936	–83,483	–8,929	–74,466	–8,193
Operating surplus		**16,740**	**1,770**	**15,036**	**1,608**	**13,531**	**1,489**
Adjustment for non-cash items		19	2	15	2	–10	–1
Operating cash surplus		**16,759**	**1,772**	**15,051**	**1,610**	**13,521**	**1,488**
Change in							
Inventories		1,059	112	–1,407	–150	–120	–13
Operating receivables		–298	–31	–1,029	–110	–158	–17
Operating liabilities		835	88	1,919	205	131	14
Change in working capital		**1,596**	**169**	**–517**	**–55**	**–147**	**–16**
Current capital expenditures		–4,222	–446	–3,293	–352	–2,861	–315
Restructuring costs, etc.		–1,102	–117	–801	–86	–799	–88
Operating cash flow		**13,031**	**1,378**	**10,440**	**1,117**	**9,714**	**1,069**
Financial items	E7	–835	–88	–828	–88	–740	–82
Paid tax	B4	–3,782	–400	–2,194	–235	–2,099	–231
Other		149	16	132	14	25	3
Cash flow from current operations		**8,563**	**906**	**7,550**	**808**	**6,900**	**759**
Strategic capital expenditures and divestments							
Company acquisitions	F6	–6,540	–692	–92	–10	–492	–54
Strategic capital expenditures in non-current assets		–2,033	–215	–2,179	–233	–1,632	–180
Total strategic capital expenditures		**–8,573**	**–907**	**–2,271**	**–243**	**–2,124**	**–234**
Divestments	F6	369	39	49	5	205	23
Cash flow from capital expenditures and divestments		**–8,204**	**–868**	**–2,222**	**–238**	**–1,919**	**–211**
Cash flow before dividend		**359**	**38**	**5,328**	**570**	**4,981**	**548**
Private placement to non-controlling interests		435	46	–	–	–	–
Dividend to non-controlling interests		–190	–20	–216	–23	–228	–25
Transactions with shareholders		–14,571	–1,541	–2,225	–238	–4,215	–464
Net cash flow		**–13,967**	**–1,477**	**2,887**	**309**	**538**	**59**

Net debt	2016		2015		2014	
	SEKm	**EURm[2]**	**SEKm**	**EURm[2]**	**SEKm**	**EURm[2]**
Net debt, January 1	**–19,058**	**–2,087**	**–25,066**	**–2,629**	**–21,470**	**–2,403**
Net cash flow	–13,967	–1,477	2,887	309	538	59
Remeasurements to equity	–1,570	–166	1,281	137	–2,455	–270
Exchange rate effects, etc.	–578	50	1,840	96	–1,679	–15
Net debt, December 31	**–35,173**	**–3,680**	**–19,058**	**–2,087**	**–25,066**	**–2,629**

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.46 (9.35; 9.09) was used.
2) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.56 (9.13; 9.53) was used for net debt.

Consolidated cash flow statement CF

Group	Note	2016 SEKm	2016 EURm[1)]	2015 SEKm	2015 EURm[1)]	2014 SEKm	2014 EURm[1)]
Operating activities							
IS Profit before tax		8,173	864	8,856	947	7,620	839
T:1 Adjustment for non-cash items		6,791	718	4,635	496	4,384	482
		14,964	**1,582**	**13,491**	**1,443**	**12,004**	**1,321**
Paid tax	B4	–3,782	–400	–2,194	–235	–2,099	–231
Cash flow from operating activities before changes in working capital		**11,182**	**1,182**	**11,297**	**1,208**	**9,905**	**1,090**
Cash flow from changes in working capital							
Change in							
Inventories		1,059	112	–1,407	–150	–120	–13
Operating receivables		–298	–31	–1,029	–110	–158	–17
Operating liabilities		835	88	1,919	205	131	14
Cash flow from operating activities		**12,778**	**1,351**	**10,780**	**1,153**	**9,758**	**1,074**
Investing activities							
Company acquisitions	F6	–4,416	–467	–72	–8	–492	–54
Divestments	F6	369	39	49	5	205	23
T:2 Investments in intangible assets and property, plant and equipment		–6,339	–670	–5,679	–607	–4,596	–506
Sale of property, plant and equipment		83	9	207	22	103	11
Loans granted to external parties		–	–	–	–	–129	–14
Repayment of loans from external parties		184	19	186	20	–	–
Sale of securities		–	–	2,046	219	–	–
Cash flow from investing activities		**–10,119**	**–1,070**	**–3,263**	**–349**	**–4,909**	**–540**
Financing activities							
Private placement to non-controlling interests		435	46	–	–	–	–
Acquisition of non-controlling interests		–	–	–11	–1	–173	–19
Change, receivable from Group companies		10,403	1,100	–382	–41	1,839	202
Loans raised		16,148	1,708	11,100	1,187	3,485	384
Amortization of debt		–15,614	–1,651	–14,657	–1,568	–5,814	–640
Dividend to non-controlling interests		–190	–20	–216	–23	–228	–25
Transactions with shareholders		–14,571	–1,541	–2,225	–238	–4,215	–464
Cash flow from financing activities		**–3,389**	**–358**	**–6,391**	**–684**	**–5,106**	**–562**
Cash flow for the period		**–730**	**–77**	**1,126**	**120**	**–257**	**–28**
Cash and cash equivalents, January 1		4,828	529	3,806	399	3,800	425
Exchange differences in cash and cash equivalents		146	–8	–104	10	263	2
Cash and cash equivalents, December 31 [2)]	E2	**4,244**	**444**	**4,828**	**529**	**3,806**	**399**

1) Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.46 (9.35; 9.09) was used.
2) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.56 (9.13; 9.53) was used.

For the Group's liquidity reserve, refer to Note E8 Financial risks.

T:1 Adjustment for non-cash items

SEKm	2016	2015	2014
Depreciation/amortization and impairment of non-current assets	5,701	5,606	4,389
Gain/loss on asset sales and swaps	51	22	–14
Gain/loss on sale of securities	–	–970	–
Gain/loss on divestments	–149	–	–
Unpaid relating to efficiency program	578	180	246
Payments relating to efficiency program already recognized	–196	–274	–306
Revaluation of previous share upon acquisition	–	–	–36
Provision for ongoing competition case	813	–	–
Other	–7	71	105
Total	**6,791**	**4,635**	**4,384**

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

SEKm	2016	2015	2014
Measures to raise the capacity level of operations (Strategic capital expenditures)	–2,033	–2,179	–1,632
Measures to uphold capacity level (Current capital expenditures)	–4,306	–3,500	–2,964
Total	**–6,339**	**–5,679**	**–4,596**

Interest paid, SEKm	2016	2015	2014
Interest paid	–879	–1,135	–1,261
Interest, Group companies	106	130	223
Interest received	78	56	94
Total	**–695**	**–949**	**–944**

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

Cash flow from operating activities

SEKm	2016	2015	2014
Cash flow from operating activities	12,778	10,780	9,758
Adjustment items			
Current capital expenditures	–4,222	–3,293	–2,861
Accrued interest	8	63	1
Other	–1	–	2
Cash flow from current operations according to consolidated operating cash flow statement	**8,563**	**7,550**	**6,900**

Cash flow from investing activities

SEKm	2016	2015	2014
Cash flow from investing activities	–10,119	–3,263	–4,909
Adjustment items			
Current capital expenditures	4,222	3,293	2,861
Loans granted to external parties	–	–	129
Sale of securities	–	–2,046	–
Repayment of loans from external parties	–184	–186	–
Net debt in acquired and divested companies	–2,124	–	174
Acquisition of non-controlling interests	–	–11	–173
Financial liability (earn-out payment) upon acquisition	–	–9	–
Other	1	–	–1
Cash flow from strategic capital expenditures and divestments according to the consolidated operating cash flow statement	**–8,204**	**–2,222**	**–1,919**

Cash flow for the period

SEKm	2016	2015	2014
Cash flow for the period	–730	1,126	–257
Adjustment items			
Amortization of debt	15,614	14,658	2,329
Loans raised	–16,148	–11,100	
Loans granted to external parties	–	–	129
Sale of securities	–	–2,046	–
Repayment of loans from external parties	–184	–186	–
Change, receivable from Group companies	–10,403	382	–1,839
Net debt in acquired and divested operations	–2,124	–	174
Financial liability (earn-out payment) upon acquisition	–	–9	–
Accrued interest	8	63	1
Other	–	–1	1
Net cash flow according to consolidated operating cash flow statement	**–13,967**	**2,887**	**538**

Consolidated balance sheet BS

		2016		2015		2014		Jan 1, 2014	
Group	**Note**	**SEKm**	**EURm[1)]**	**SEKm**	**EURm[1)]**	**SEKm**	**EURm[1)]**	**SEKm**	**EURm[1)]**
Non-current assets									
Goodwill	D1	19,253	2,014	15,412	1,688	15,660	1,643	13,748	1,539
Other intangible assets	D1	7,665	802	7,351	805	7,895	828	8,027	899
Buildings, land, machinery and equipment	D2	47,494	4,969	42,402	4,643	43,599	4,574	39,909	4,467
Participations in joint ventures and associates	F3	1,096	115	1,041	114	1,047	110	963	108
Shares and participations	F5	32	3	33	4	40	4	40	4
Surplus in funded pension plans	C5	335	35	35	4	3	0	385	43
Non-current receivables, Group companies	G4	–	–	39	4	11	1	21	2
Non-current financial receivables, Group companies	G4	3	0	3	0	3	0	3	0
Non-current financial assets	E2	714	75	728	80	2,843	298	2,512	281
Deferred tax assets	B4	1,457	153	1,056	116	1,151	121	918	103
Other non-current assets		241	25	149	16	116	12	293	33
Total non-current assets		**78,290**	**8,191**	**68,249**	**7,474**	**72,368**	**7,591**	**66,819**	**7,479**
Current assets									
Inventories	D3	10,944	1,145	11,229	1,230	10,343	1,085	9,415	1,054
Trade receivables	E3	15,843	1,658	14,808	1,622	14,912	1,564	13,578	1,520
Current tax assets	B4	740	77	868	95	647	68	513	57
Current receivables, Group companies	G4	57	6	166	18	117	12	102	11
Current financial receivables, Group companies	G4	1,433	150	12,207	1,337	12,764	1,340	14,753	1,652
Other current receivables	D4	2,333	244	2,100	230	2,188	229	1,928	216
Current financial assets	E2	244	26	776	85	1,260	132	534	60
Non-current assets held for sale	G1	156	16	120	13	60	6	32	4
Cash and cash equivalents	E2	4,244	444	4,828	529	3,806	399	3,800	425
Total current assets		**35,994**	**3,766**	**47,102**	**5,159**	**46,097**	**4,835**	**44,655**	**4,999**
Total assets		**114,284**	**11,957**	**115,351**	**12,633**	**118,465**	**12,426**	**111,474**	**12,478**
EQUITY AND LIABILITIES									
Equity	E9								
Owners of the Parent									
Share capital									
Other capital provided									
Reserves		4,061	425	1,501	164	4,015	421	568	64
Retained earnings		29,143	3,049	41,485	4,544	35,660	3,740	37,323	4,178
		33,204	**3,474**	**42,986**	**4,708**	**39,675**	**4,161**	**37,891**	**4,242**
Non-controlling interests		6,376	667	5,289	579	5,250	551	4,540	508
Total equity		**39,580**	**4,141**	**48,275**	**5,287**	**44,925**	**4,712**	**42,431**	**4,750**
Non-current liabilities									
Non-current financial liabilities	E4	31,299	3,275	21,463	2,351	24,199	2,539	28,651	3,207
Non-current liabilities, Group companies	G4	48	5	–	–	4	0	–	–
Non-current financial liabilities, Group companies	G4	–	–	–	–	–	–	1,000	112
Provisions for pensions	C5	5,273	552	2,919	320	4,958	520	2,687	301
Deferred tax liabilities	B4	3,872	405	3,756	411	3,231	339	3,517	394
Other non-current provisions	D6	1,407	147	886	97	579	61	358	40
Other non-current liabilities	D5	72	7	146	16	97	10	75	8
Total non-current liabilities		**41,971**	**4,391**	**29,170**	**3,195**	**33,068**	**3,469**	**36,288**	**4,062**
Current liabilities									
Current financial liabilities	E4	5,089	533	12,402	1,359	14,791	1,551	10,158	1,137
Current liabilities, Group companies	G4	259	27	341	37	273	29	269	30
Current financial liabilities, Group companies	G4	485	51	852	93	1,797	188	962	108
Trade payables		12,972	1,357	11,869	1,300	11,800	1,239	10,640	1,191
Current tax liabilities	B4	915	96	808	88	729	76	803	90
Current provisions	D6	1,409	147	889	97	917	96	1,004	112
Other current liabilities	D5	11,604	1,214	10,745	1,177	10,165	1,066	8,919	998
Total current liabilities		**32,733**	**3,425**	**37,906**	**4,151**	**40,472**	**4,245**	**32,755**	**3,666**
Total liabilities		**74,704**	**7,816**	**67,076**	**7,346**	**73,540**	**7,714**	**69,043**	**7,728**
Total equity and liabilities		**114,284**	**11,957**	**115,351**	**12,633**	**118,465**	**12,426**	**111,474**	**12,478**

Contingent liabilities and pledged assets, see Note G3

Capital employed	74,753	7,821	67,333	7,374	69,991	7,341	63,902	7,153
Net debt	35,173	3,680	19,058	2,087	25,066	2,629	21,471	2,403

1) Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.56 (9.13; 9.53, 8,93) 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 the Essity Group 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 below.

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

General

These combined financial statements ("financial statements") are a part the annual accounts for the Group of Essity Aktiebolag. The material companies in the Essity Group are specified in Note F1. A complete list is kept by the Parent Company Essity Aktiebolag (publ).

BASIS OF PREPARATION

These financial statements are prepared in accordance with 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 annual accounts for the 2016 fiscal year are prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2, Reporting by Legal Entities, and the Annual Accounts Act. The material accounting principles for the Parent Company are presented in Notes PC1–PC15. During the fiscal year, Essity Aktiebolag transitioned from the Swedish Accounting Standards Board's general guidelines 2012:1 Annual Accounts and Consolidated Financial Statements (K3), to application of RFR 2. The transition did not entail any changes that affect recognition and measurement, instead the changes relate solely to supplementary disclosures.

The financial statements relate to the fiscal year that ended on December 31, 2016. The Essity Group 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 in profit or loss or in other comprehensive income.

The formation of the Essity Group is a transaction under common control and is currently not covered by any IFRS standard, implying that a suitable accounting principle should be applied in accordance with IAS 8. A suitable and established method is to use previous carrying amounts (predecessor basis of accounting), which is the principle that the Essity Group has adopted to apply.

The financial statements have thus been prepared on the basis of the financial information reported for the above units for the purposes of consolidated accounting in Svenska Cellulosa Aktiebolaget SCA, which is the Essity Group's Parent Company. The financial statements are thus an aggregation of this financial information and are presented as though the units were a group as of the date they became part of the Svenska Cellulosa Aktiebolaget SCA Group. The accounting principles thus conform to the accounting principles presented in Svenska Cellulosa Aktiebolaget SCA's financial statements for the 2016 fiscal year, which are outlined below, and mean that the units' assets and liabilities are presented using the carrying amounts for the highest level of common control (i.e. Svenska Cellulosa Aktiebolaget SCA) for the periods covered by this financial report.

This financial report is also the Essity Group's first financial report to be prepared in accordance with IFRS. Considering the application of accounting and presentation methods as stated above, IFRS 1 does not involve any impact on the measurement of assets and liabilities. However, the Essity Group has chosen, for the presentation of the financial statements, to apply the voluntary exception in IFRS 1 to reset translation differences to zero in the opening balance for 2014.

Due to the fact that it was not only separate legal entities that were transferred in conjunction with the formation of the Essity Group, the following considerations were taken into account in conjunction with the preparation of the financial statements, together with the principles used to determine which assets, liabilities, revenues, costs and cash flows are to be included in the financial statements.

Allocation of income and expenses

Given that the majority of the current Svenska Cellulosa Aktiebolaget SCA's central functions have been transferred to the Essity Group, these historical income and expenses are, in all material respects, allocated to the Essity Group and are included in the financial statements.

Income statement

Essity Aktiebolag has also decided to continue to report the income statement functional based, but increase the number of lines in the income statement by recognizing amortization of acquisition-related intangible assets on a separate line, which makes it easier to compare the results with other companies regardless of whether the business is based on acquisitions or through organic growth. The company has also chosen to introduce EBITA as a subitem in the consolidated income statement, see note A2 for further information.

Pension obligations

The majority of the pension obligations and related plan assets have, for all periods, been reported by the respective legal entity in the Essity Group and have been calculated according to the principles presented below. The pension obligations and fair value of the directly attributable plan assets for these obligations were recognized in the combined financial statements based on the calculated obligations in accordance with IAS 19 for the individuals and the individual pension obligations for former senior executives that were transferred to the Essity Group. The pension obligations and assets for which the approval of authorities is required for transfer were also included. The costs and remeasurement effects related to these obligations are reflected in the financial statements.

Derivatives and hedge accounting

The Essity Group includes the treasury function that was previously part of the Svenska Cellulosa Aktiebolaget SCA Group. This function has managed all of the Svenska Cellulosa Aktiebolaget SCA Group's derivatives and hedging relationships concerning the company's commercial flows and net investments. These financial statements only present the hedging reserve that is attributable to the Essity Group in relation to cash flow hedges and hedging of net investments. External derivative agreements that was entered into with regards to commercial flows and net investments in the Forest Products business are recognized at fair value in the balance sheet and any internal derivatives are also recognized as external positions from a Essity Group perspective. The effects of the revaluation of external and internal positions for the Forest Products business were recognized net in comprehensive income.

Financial expenses and capital structure

All financial expenses charged to the Essity Group were based on actual borrowings that the Essity Group and Svenska Cellulosa Aktiebolaget SCA had from external creditors. Furthermore, because the Treasury company was included in the Essity Group, the borrowing and lending and the interest income and expenses that the Treasury company had relating to the Forest Products business. The Essity Group's historical capital structure have not been adjusted to reflect a potential capital structure for a separate entity.

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

Transactions with shareholders
Dividends that are financed through the corporate internal bank, group contributions and transactions between Forest Products business and the Essity Group which have been transferred without compensation have been accounted for as transactions with the shareholder. For further information see note E9 and G4

Income taxes
Because the Svenska Cellulosa Aktiebolaget SCA Group has been able to apply tax equalization between its entities, using for example Group contributions, the Swedish entities that make up the Essity Group historically has not been subject to tax in the same manner as if they were an independent Group. In the financial statements, tax has been recognized on the basis of the taxable earnings in the entities, and the opportunities that Group has had to apply tax equalization, for example, via Group contributions. In those cases were tax equalization have been applied between Swedish entities within the Essity Group and the Forest Products business these have been recognized as a transaction with the shareholder.

Earnings per share
In these financial statements, the calculation of earnings per share has been based on the average number of shares outstanding in Svenska Cellulosa Aktiebolaget SCA, which is 702.3 million shares. This is considered more relevant given the intention to hereafter reflect the same share structure that exists in Svenska Cellulosa Aktiebolaget SCA in Essity Aktiebolag due to the proposed distribution of the Group.

Elimination of transactions in Essity
Receivables, liabilities, revenue, costs and unrealized gains and losses that arise between entities in the Essity Group are eliminated in their entirety. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent there is no impairment requirement. The Essity Group had a number of transactions with SCA companies in Forest Products, and pricing follows the transfer pricing policy that applies for the Svenska Cellulosa Aktiebolaget SCA Group. In its balance sheet, the Essity Group has chosen to show these transactions on separate lines as current/non-current receivables from/liabilities to Group companies. Further information on transactions between the Essity Group and the Forest Products business are described in Note G4 Transactions with related parties.

Segments
At SCA's Annual General Meeting on April 6, decisions were made to distribute Hygiene operations to the shareholders. A review according to IFRS 8 Segments has therefore been implemented. Hygiene decided to divide the business into three segments, whereby Mjukpapper has been shared into Consumer Tissue and Professional Hygiene. In addition, Personal Care will continue to be a separate segment, which will also include the new acquisition of BSN Medical, Medical Solutions, from Q2, which is in line with how the new organization will continue to be developed and managed. Comparative figures have been recalculated accordingly.

Significant events after the balance sheet date
With regard to the potential impact of events after the balance sheet date in accordance with IAS 10, the principle has been chosen in the financial statements to only consider events in the most recent period presented, that is, the 2016 fiscal year. Accordingly, the 2015 and 2014 fiscal years are considered to be concluded.

New or amended accounting standards 2016
No new standards or amendments to regulatory frameworks that had a material impact on the Essity Group's earnings and financial position were implemented in 2016.
- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of
- Depreciation and Amortization
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint
- Operations

The amendments are not expected to have any material impact on the Group's or parent company's earnings or financial position.

New or amended accounting standards after 2016
No new standards will be implemented 2017. However, a number of amendments of existing standards will be introduced. See below:
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized losses
- Annual Improvements to IAS7:Disclosure Initiative

These amendments are not expected to have any material impact on the Group.
The material new standards to be applied from their effective date are described below. No prospective application is planned.

IFRS 9 Financial instruments
IFRS 9 Financial Instruments was issued in July 2014 and is a new standard that will replace IAS 39. The standard is divided into three areas: Classification and measurement of financial assets and liabilities, impairment and hedging. The standard will become mandatory on January 1, 2018 with prospective application permitted.

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.

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.

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

The Essity Group has not fully evaluated the effects of IFRS 9 but expects the new rules for hedge accounting to increase the Essity Group's possibilities for hedge accounting and facilitate the documentation of hedge accounting. With respect to impairment, trade receivables are the main item affected for the Essity Group and the quantitative effects are deemed relatively small.

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 date on which the standard will become effective has been postponed one year to 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 identifable 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 estab-

lished 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 disclosures 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 settlement against the recognized segment, information regarding balance sheet items and information concerning significant assessments.

In 2016, a project group at the Essity Group analyzed the implications of a switch of revenue standard in 2018. The group's main task was to introduce and provide training to various parts of the Group in terms of what the standard involves and the implications it will have for the Essity Group. In addition, the Group has produced a questionnaire to determine the various types of contracts that exist in the Group. The questionnaire has been discussed at various levels with the company's regions. Contact was made with the business development departments for various products, particularly within Incontinence Products and Professional Hygiene, to identify whether the Essity Group's product offering encompasses services or whether the future development of new products will encompass services. Furthermore, information was compiled regarding how bonuses and discounts are handled in Essity's contracts and reporting.

The conclusion can be drawn that Essity's sales mainly comprise sales of products and, to a very limited extent, services, and thus the assessment has been made that no separate reporting of services is required. Developments in the area will continue to be monitored and in the event of a broadening of the service offering, separate reporting may be introduced.

The new reporting standard has transitioned from a risk and rewards concept to focusing more on when control has been transferred to the customer, which has given cargo clauses a more prominent role. As part of the project, it was found that for some of the shipments, the Essity Group booked the sales revenues before control had been transferred to the customer. However, the extent was considered to be insignificant. Overall, this means that the new standard is not expected to have any significant impact on the Essity Group's revenue recognition. During 2017, however, the Essity Group intends to ensure that the data is available for the expanded disclosure requirements in 2017.

IFRS 16 Leases

In January 2016, the IASB published a new leases standard that will replace IAS 17 Leasing agreements and associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that all assets and liabilities attributable to all lease agreements, with a few exceptions, be 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 agreements with a term of less than 12 months or assets with a low value, such as leasing contracts for computers and office furniture. Recognition for the lessor will remain essentially unchanged. The standard is applicable to fiscal years beginning on January 1, 2019 or later. Prospective application is permitted. The standard has not yet been adopted by the EU. The Essity Group will need to develop an overview of the lease agreements that exist in the Group to assess the measures required and to adapt recognition to the new standard as well as the extent to which the Essity Group is to continue leasing equipment.

The cost of operational lease agreements for the 2016 fiscal year amounted to SEK 698m. As of December 31, 2016, the undiscounted amount relating to payment commitments for operational lease agreements totaled SEK 3,100m. 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 G2.

USE OF ASSESSMENTS

The preparation of financial statements in conformity 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 the opinion of the Essity Group, the areas that are impacted the most by assumptions and estimates are:

Goodwill, D1
Pensions, C5
Taxes, B4
Provisions, D6

The Essity Group'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.

Subsidiaries

All companies included in the combined financial statements in which the Essity Group or Essity Aktiebolag has control are consolidated. The definition of control is the ability to control the subsidiary, entitlement to a return and power to influence the activities that impact return. The consolidated financial statements are prepared based on transferred values from Svenska Cellulosa Aktiebolaget SCA.

Joint arrangements

The Essity Group 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.

TRANSLATION OF FOREIGN CURRENCY

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

The Essity Group's Parent Company has Swedish kronor (SEK) as its functional currency. The functional currency of Essity's Group companies is determined on the basis of the primary economic environment in which the respective companies are active which, with a few exceptions, are the countries in which the individual companies operate. The financial statements of Group companies are translated to the Group's presentation currency, which is SEK in the case of the Essity Group. 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

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

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 surplus 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 accounting year-end, monetary assets and liabilities are translated at the closing day rate and any exchange rate effects are recognized in profit or loss. In cases where the exchange rate effect is related to the operations, the effect is recognized net in operating profit. Exchange rate effects pertaining to borrowing and financial investments are recognized as other financial items. 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, synonymous with net sales, comprises the fair value of the consideration received or receivable for sold goods and services within the Essity Group's ordinary activities. Revenue is recognized when delivery to the customer has taken place according to the terms of the sale. Other income 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 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-IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS) 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 (APMs) applied as of July 3, 2016.

The Prospectus refers to a number of non-IFRS performance measures used to assist investors and company management to analyze 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.

It is important that the Essity Group maintains 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 in the target to maintain a solid investment grade rating.

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 much the value of an asset changes from an earlier point in time	
Non-IFRS 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 average capital employed for 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 average capital employed for the two most recent quarters.	This is the 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 average capital employed for the five most recent quarters. The corresponding key figure for a single quarter is calculated as EBITA, excluding items affecting comparability, for the quarter multiplied by four as a percentage of average capital employed for the two most recent quarters.	Return on capital employed is the central ratio for measuring return on capital tied up in operations.

SEKm	2016	2015	2014
ADJUSTED RETURN ON CAPITAL EMPLOYED, ROCE			
EBITA	9,347	10,311	8,486
Items affecting comparability	2,645	292	1,009
Adjusted EBITA	11,992	10,603	9,495
Average capital employed	73,145	70,115	66,866
Adjusted return on capital employed, ROCE	**16.4%**	**15.1%**	**14.2%**

Return on equity	For the Group, return on equity is calculated as profit for the year 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.

CAPITAL MEASURES	Shows how capital is utilized and the company's financial strength	
Non-IFRS measure	**Description**	**Reason for use of the measure**
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 shares outstanding that exist in SCA AB, on account on the proposed spin-off of the Group. The intention is to henceforth reflect the same share structure that exists in SCA AB in Essity Aktiebolag.	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 amount 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	2016	2015	2014
CAPITAL EMPLOYED			
Total assets	114,284	115,351	118,465
Financial assets	–6,973	–18,577	–20,679
Non-current, non-interest-bearing liabilities	–5,399	–4,788	–3,911
Current, non-interest-bearing liabilities	–27,159	–24,653	–23,884
Capital employed	**74,753**	**67,333**	**69,991**
CAPITAL EMPLOYED			
Personal Care	13,665	13,149	13,578
Consumer Tissue	40,082	40,903	40,866
Professional hygiene	21,253	14,151	14,623
Other	–247	–870	924
Capital employed	**74,753**	**67,333**	**69,991**

Non-IFRS measure	Description	Reason for use of the measure
Capital turnover	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 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	2016	2015	2014
WORKING CAPITAL			
Inventories	10,944	11,229	10,343
Trade receivables	15,843	14,808	14,912
Other current receivables	2,390	2,266	2,305
Trade payables	–12,972	–11,869	–11,800
Other current liabilities	–11,863	–11,086	–10,438
Other	–199	–183	–90
Working capital	**4,143**	**5,165**	**5,232**

CAPITAL MEASURES cont.	Shows how capital is utilized and the company's financial strength	
Non-IFRS measure	**Description**	**Reason for use of the measure**
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.	Net debt is the most relevant measure for showing the Company's total debt financing.

SEKm	2016	2015	2014
NET DEBT			
Surplus in funded pension plans	335	35	3
Non-current financial assets	717	731	2,846
Current financial assets	1,677	12,983	14,024
Cash and cash equivalents	4,244	4,828	3,806
Financial assets	**6,973**	**18,577**	**20,679**
Non-current financial liabilities	31,299	21,463	24,199
Provisions for pensions	5,273	2,919	4,958
Current financial liabilities	5,574	13,253	16,588
Financial liabilities	**42,146**	**37,635**	**45,745**
Net debt	**35,173**	**19,058**	**25,066**

Non-IFRS 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 the cash earnings in relation to average 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.	The 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 measure	**Description**	**Reason for use of the measure**
Organic sales	Sales 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	2016	2015	2014
ORGANIC SALES			
Personal Care			
Organic sales	865	2,282	853
Exchange rate effects	–1,313	1,015	465
Acquisitions/Divestments	–245	–18	12
Recognized change	**–693**	**3,279**	**1,330**
Consumer Tissue			
Organic sales	1,110	2,183	189
Exchange rate effects	–1,207	2,423	1 386
Acquisitions/Divestments	0	0	5 184
Recognized change	**–97**	**4,606**	**6,759**
Professional Hygiene			
Organic sales	708	405	424
Exchange rate effects	–168	2,179	769
Acquisitions/Divestments	2,934	0	806
Recognized change	**3,474**	**2,584**	**1,999**
Group			
Organic sales	2,718	4,923	1,463
Exchange rate effects	–2,688	5,617	2,623
Acquisitions/Divestments	2,689	–18	6,002
Recognized change	**2,719**	**10,522**	**10,088**

ORGANIC SALES %	2016	2015	2014
Previous period sales	98,519	87,997	77,927
Organic sales	2,718	4,923	1,463
Total organic sales for the period	101,237	92,920	79,390
Organic sales %	**3%**	**6%**	**2%**

Non-IFRS 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 profit 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 good 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 were 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	2016	2015	2014
Adjusted operating profit before amortization of acquisition related intangible assets/EBITA			
Operating profit	9,008	9,684	8,360
-Amortization of acquisition related intangible assets	159	133	126
-Items affecting comparability, amortization of acquisition related intangible assets	180	494	–
Operating profit before amortization of acquisition related intangible assets/EBITA	9,347	10,311	8,486
EBITA margin	9.2%	10.5%	9.6%
-Items affecting comparability, cost of goods sold	532	267	441
-Items affecting comparability, sales, general and administration	2,113	25	568
Adjusted operating profit before amortization of acquisition related intangible assets/EBITA	**11,992**	**10,603**	**9,495**
Adjusted EBITA margin	11.8%	10.8%	10.8%

Non-IFRS measure	Description	Reason for use of the measure
Items affecting comparability	Under items affecting comparability, Essity includes costs in connection with acquisitions, restructuring, impairment and other specific events.	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 profit margin	Adjusted gross profit as a percentage of net sales for the period.	Adjusted gross profit margin is stripped of items affecting comparability and is thus a better measure for showing the company's margin before the effect of costs such as selling and administrative costs.
EBITA margin	Operating profit before amortization of acquisition related intangible assets/EBITA in percent of net sales.	The measure is a good complement to enable margin comparisons with other companies, regardless of wheter business activities where based on acquisitions or organic growth.
Adjusted EBITA margin	Operating profit before amortization of acquisition related intangible assets/EBITA, excluding items affecting comparability, in percent of net sales.	The measure is a good complement to enable margin comparisons with other companies, regardless of wheter business activities where 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	2016	2015	2014
ADJUSTED OPERATING PROFIT			
Operating profit	9 008	9 684	8 360
-Items affecting comparability	2 825	786	1 009
Adjusted operating profit	**11 833**	**10 470**	**9 369**
Adjusted operating margin	11,7%	10,6%	10,6%

Non-IFRS measure	Description	Reason for use of the measure
Financial net margin	Net financial items divided by net sales.	This measure shows the relationship between net financial items and net sales.
Adjusted profit before tax	Calculated as profit before tax, excluding items affecting comparability.	This is a useful measure for showing total profit for the Company including financing, but not affected by taxes and items that affect comparability with previous periods.

Non-IFRS measure	Description	Reason for use of the measure
Adjusted tax	Adjusted tax is the tax expense for the period adjusted for the tax expense related to items affecting comparability.	This is a useful measure showing the total tax expense for the period adjusted for taxes related to items affecting comparability.

SEKm	2016	2015	2014
ADJUSTED TAX			
Tax	–3,931	–2,278	–1,939
Tax related items affecting comparability	–424	–467	–223
Adjusted tax	**–4,355**	**–2,745**	**–2,162**

Non-IFRS measure	Description	Reason for use of the measure
Adjusted profit for the period	Profit for the period excluding items affecting comparability.	Shows the period's total 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 have been deducted, including income taxes.

CASH FLOW PERFORMANCE MEASURES	**Various performance measures and costs that have impacted the company's cash flow**	
Non-IFRS measure	**Description**	**Reason for use of the measure**
Operating cash surplus	Operating cash surplus is calculated as operating profit with reversal of depreciation and impairment of property, plant and equipment and intangible assets. Share of profits of associates and joint ventures, items affecting comparability and capital gains and 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	2016	2015	2014
OPERATING CASH FLOW			
Personal Care			
Operating cash surplus	5,314	5,018	4,511
Change in working capital	289	–314	–96
Current capital expenditures, net	–805	–840	–884
Restructuring costs, etc.	–75	–72	–186
Operating cash flow	**4,723**	**3,792**	**3,345**
Consumer Tissue			
Operating cash surplus	6,455	5,845	5,641
Change in working capitall	891	–130	195
Current capital expenditures, net	–1,892	–1,437	–1,197
Restructuring costs, etc.	–255	–174	–458
Operating cash flow	**5,199**	**4,104**	**4,181**
Professional Hygiene			
Operating cash surplus	5,515	4,858	4,119
Change in working capitall	–30	–155	–140
Current capital expenditures, net	–1,267	–823	–652
Restructuring costs, etc.	–83	–317	–165
Operating cash flow	**4,135**	**3,563**	**3,162**

Non-IFRS 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 can be said to illustrate 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 the Essity Group, this function has been identified as the company's President and CEO, 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. For management purposes, the Group is organized into business areas based on its products. The Essity Group's three business areas, Personal Care, Consumer Tissue and Professional Hygiene, comprise the operating segments. In Consumer Tissue, the products are sold to retailers, both under Essity's own brands such as Lotus, Tempo, Zewa and Vinda, as well as retail brands. Professional Hygiene develops and sells under the globally leading brand Tork complete hygiene solutions, such as tissue, soap, hand lotion, hand disinfection, containers, cleaning and wiping products, service and maintenance to institutions and companies. Distribution channels are retail, online sales and distributors.

Personal Care manufactures and sells incontinence products, baby diapers and men's protection. The products are sold under Essity's global and regional brands such as Libero, Libresse, Nosotras, Saba and Tena as well as retail brands. Distribution channels are retail, online sales, pharmacies and healthcare institutions. .

Hygiene operations are an integrated business in the form of a matrix organization, with four business units (Health and Medical Solutions, Consumer Goods, Latin America and AfH Professional Hygiene) and three global units (Global Hygiene Category, Global Hygiene Supply Tissue and Global Hygiene Supply Personal Care). The business units have a limited responsibility to influence operational costs as the global units are responsible for production, planning, technology development, purchasing and product development. The main task of business unit managers is therefore to process markets based from a sales perspective.

No operating segments have been aggregated to form the above reportable operating segments.

The President and CEO monitor the operating results of its business areas separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

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
2016 fiscal year						
REVENUES						
TB1:2 **External sales**	33,651	41,560	26,001	26	–	101,238
Internal sales	–	–	–	–	–	–
IS **Total revenues**	**33,651**	**41,560**	**26,001**	**26**	**–**	**101,238**
RESULT						
Adjusted operating profit 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 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 Holdings in 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

B1. SEGMENT REPORTING, CONT.

SEKm	Personal Care	Consumer Tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2015 fiscal year						
REVENUES						
TB1:2 **External sales**	34,344	41,657	22,527	–9	–	98,519
Internal sales	–	–	–	–	–	–
IS **Total revenues**	**34,344**	**41,657**	**22,527**	**–9**	**–**	**98,519**
RESULT						
Adjusted operating profit 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 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 Holdings in 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

SEKm	Personal Care	Consumer tissue	Professional Hygiene	Other operations	Eliminations	Total, Group
2014 fiscal year						
REVENUES						
TB1:2 **External sales**	31,066	37,051	19,943	–72	–	87,988
Internal sales	–	–	–	27	–18	9
IS **Total revenues**	**31,066**	**37,051**	**19,943**	**–45**	**–18**	**87,997**
RESULT						
Adjusted operating profit before amortization of acquisition-related intangible assets	3,528	3,858	2,918	–809	–	9,495
Amortization of acquisition-related intangible assets	–2	–60	–64	–	–	–126
Adjusted operating profit per operating segment	3,526	3,798	2,854	–809	–	9,369
TB1:1 Items affecting comparability	–252	–437	–162	–158	–	–1,009
IS **Operating profit/loss**	**3,274**	**3,361**	**2,692**	**–967**	**–**	**8,360**
IS Financial income						416
IS Financial expenses						–1,156
IS Tax expense for the period						–1,939
IS **Profit for the period**						**5,681**
OTHER DISCLOSURES						
Assets	20,751	56,251	20,848	3,030	–4,141	96,739
BS Holdings in associates	297	506	234	10	–	1,047
Unallocated financial assets				20,679		20,679
BS **Total assets**	**21,048**	**56,757**	**21,082**	**23,719**	**–4,141**	**118,465**
Investments/acquisitions	–1,574	–1,955	–872	–135	–	–4,536
Depreciation/amortization	–1,039	–1,817	–1,218	–68	–	–4,142
Expenses, in addition to depreciation/amortization, not matched by payments	2	–5	–1	–6	–	–10

B1. SEGMENT REPORTING, CONT.

TB1:1 Items affecting comparability allocated by segment

SEKm	Personal Care	Consumer tissue	Professional Hygiene	Other	Total
2016 fiscal year					
Restructuring costs	–356	–234	–224	11	–803
Costs	–438	–500	–438	–107	–1,483
Impairment, etc.	–217	–210	–209	97	–539
Total	**–1,011**	**–944**	**–871**	**1**	**–2,825**
2015 fiscal year					
Restructuring costs	–72	–260	–29	–319	–680
Costs	–1	–59	–11	–70	–141
Impairment, etc.	–541	–139	–120	–135	–935
Gain on sale of securities	–	–	–	970	970
Total	**–614**	**–458**	**–160**	**446**	**–786**
2014 fiscal year					
Restructuring costs	–144	–161	–96	–4	–405
Costs	–50	–248	–63	–153	–514
Impairment, etc.	–58	–28	–3	–1	–90
Total	**–252**	**–436**	**–163**	**–158**	**–1,009**

Operating segments: The Essity Group is a leading global hygiene company that develops and produces sustainable personal care, consumer tissue and professional hygiene products. These product groups are the primary lines of business. Personal Care comprises three product segments and offers incontinence products, baby care and feminine care products. Consumer Tissue comprises toilet paper, household towels, facial tissues, handkerchiefs and napkins. In Professional Hygiene, the Essity Group develops and sells complete hygiene solutions comprising dispensers, tissue, soap, service and maintenance, encompassing hospitals, large workplaces, restaurants and hotels. Other operations consists of group common functions and unallocated 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. Internal deliveries are eliminated when preparing the consolidated financial statements.

Customers: The Essity Group has no customers 2016, 2015 and 2014 from which it generates revenues that account for more than 10% of the company's net sales. Essity's ten largest customers account for 26.6% (26.4; 28.4) of the company's sales.

B1b. SEGMENT REPORTING, CONT.

TB1:2 Group by country	Net sales – sold to[1] 2016 SEKm	%	2015 SEKm	%	2014 SEKm	%	Net sales – sold by[1] 2016 SEKm	%	2015 SEKm	%	2014 SEKm	%
Sweden	**2,501**	**2**	**2,422**	**2**	**2,259**	**3**	**2,742**	**3**	**2,700**	**3**	**2,544**	**3**
EU excl. Sweden												
Germany	9,927	10	9,575	10	9,126	10	10,446	10	10,024	10	9,644	11
France	9,079	9	9,071	9	8,682	10	9,212	9	9,161	9	8,842	10
UK	8,267	8	9,029	9	7,512	9	8,276	8	9,043	9	7,530	9
Spain	5,489	5	5,450	6	5,268	6	5,622	6	5,746	6	5,553	6
Netherlands	2,965	3	2,904	3	2,776	3	3,235	3	3,161	3	2,923	3
Italy	2,913	3	2,871	3	2,670	3	3,224	3	3,226	3	2,965	3
Austria	1,563	2	1,498	2	1,441	2	1,679	2	1,646	2	1,562	2
Belgium	1,433	1	1,435	1	1,398	2	1,521	2	1,515	2	1,454	2
Finland	1,430	1	1,437	1	1,356	2	1,467	1	1,475	1	1,401	2
Denmark	930	1	957	1	869	1	953	1	976	1	888	1
Hungary	795	1	771	1	636	1	850	1	710	1	628	1
Poland	727	1	690	1	572	1	694	1	727	1	638	1
Greece	573	1	587	1	716	1	384	0	415	0	516	1
Czech Republic	534	1	505	1	472	1	503	0	482	0	453	1
Ireland	422	0	402	0	374	0	387	0	375	0	351	0
Portugal	360	0	441	0	475	1	257	0	240	0	221	0
Croatia	274	0	233	0	238	0	–	–	–	–	–	–
Romania	265	0	219	0	247	0	272	0	239	–	226	0
Slovakia	242	0	245	0	225	0	388	0	370	0	361	0
Lithuania	182	0	174	0	171	0	182	0	173	0	170	0
Rest of EUR	673	1	656	1	569	1	307	0	280	0	273	0
Total EU excl. Sweden	**49,043**	**48**	**49,150**	**50**	**45,793**	**52**	**49,859**	**49**	**49,984**	**51**	**46,599**	**53**
Rest of Europe												
Russia	2,879	3	3,024	3	3,121	4	3,061	3	3,178	3	3,247	4
Switzerland	1,231	1	1,219	1	1,126	1	1,195	1	1,200	1	1,082	1
Norway	1,111	1	1,131	1	1,204	1	1,117	1	1,130	1	1,172	1
Turkey	486	0	690	1	722	1	537	1	789	1	812	1
Ukraine	291	0	300	0	268	0	264	0	280	0	236	0
Other (rest of Europa)	297	0	276	0	238	0	–	–	–	–	–	–
Total, Rest of Europe	**6,295**	**6**	**6,640**	**7**	**6,679**	**8**	**6,174**	**6**	**6,577**	**7**	**6,549**	**7**
TOTAL EUROPE	**57,839**	**57**	**58,212**	**59**	**54,731**	**62**	**58,775**	**58**	**59,261**	**60**	**55,692**	**63**
North America												
US	13,115	13	10,208	10	8,199	9	13,324	13	10,228	10	8,218	9
Canada	1,676	2	1,477	1	1,301	1	1,525	2	1,505	2	1,334	2
Rest of North America	4	–	4	–	–	–	–	–	–	–	–	–
TOTAL NORTH AMERICA	**14,795**	**15**	**11,689**	**12**	**9,500**	**11**	**14,849**	**15**	**11,733**	**12**	**9,552**	**11**
Latin America												
Mexico	4,015	4	4,113	4	3,403	4	4,509	4	4,680	5	3,886	4
Colombia	3,433	3	3,505	4	3,464	4	3,978	4	3,960	4	3,810	4
Ecuador	1,291	1	1,400	1	1,242	1	1,291	1	1,400	1	1,242	1
Chile	1,022	1	1,078	1	923	1	1,015	1	1,072	1	919	1
Costa Rica	495	0	518	1	410	0	499	0	523	1	414	0
Brazil	460	0	563	1	514	1	460	0	561	1	514	1
Argentina	345	0	429	0	279	0	372	0	452	0	306	0
Dominican Republic	255	0	216	0	159	0	121	0	114	0	84	0
Peru	252	0	219	0	163	0	12	0	7	0	2	0
Nicaragua	159	0	174	0	142	0	0	0	–	–	–	–
Rest of Latin America	704	1	722	1	625	1	94	–	98	–	73	–
TOTAL LATIN AMERICA	**12,431**	**12**	**12,937**	**13**	**11,324**	**13**	**12,351**	**12**	**12,867**	**13**	**11,250**	**13**
Asia												
China	10,089	10	9,277	9	6,675	8	11,272	11	10,456	11	7,299	8
Malaysia	1,292	1	1,337	1	1,120	1	1,679	2	1,701	2	1,412	2
Hong Kong	1,109	1	1,055	1	903	1	–	–	–	–	227	–
Japan	653	1	543	1	453	1	574	1	498	1	450	1
Taiwan	333	0	323	0	327	0	378	–	333	0	444	1
Singapore	206	0	240	0	236	0	183	–	186	0	162	0
India	163	0	109	0	39	0	163	–	108	0	34	0
Rest of Asia	1,011	1	1,060	1	965	1	272	–	290	–	352	–
TOTAL ASIA	**14,856**	**15**	**13,944**	**14**	**10,718**	**12**	**14,521**	**14**	**13,572**	**14**	**10,380**	**12**
Rest of the world												
Tunisia	305	0	323	0	286	0	546	1	624	1	662	1
South Africa	121	0	360	0	344	0	79	0	331	0	334	0
Morocco	107	0	106	0	106	0	43	0	–	–	–	–
Egypt	42	0	65	0	64	0	39	0	53	0	46	0
Other (rest of the world)	742	1	883	1	924	1	35	–	78	–	81	–
Total, Rest of the world	**1,317**	**1**	**1,737**	**2**	**1,724**	**2**	**742**	**1**	**1,086**	**1**	**1,123**	**1**
Total, Group	**101,238**	**100**	**98,519**	**100**	**87,997**	**100**	**101,238**	**100**	**98,519**	**100**	**87,997**	**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 the Essity Group has its customers, or the Essity Group's "footprint". The second column "Net sales – sold by" takes the perspective of IFRS 8, meaning revenues 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]		
	2016	Of whom men, %	Of whom women, %	2015	Of whom men, %	Of whom women, %	2014	Of whom men, %	Of whom women, %	2016 SEKm	2015 SEKm	2014 SEKm
Sweden	**1,990**	**56**	**44**	**1,941**	**55**	**45**	**1,966**	**57**	**43**	**5,294**	**4,706**	**2,772**
EU excl. Sweden												
Germany	3,368	81	19	3,343	82	18	3,358	82	18	6,376	5,837	6,244
France	2,470	75	25	2,590	76	24	2,668	76	24	5,254	5,289	5,830
UK	1,505	81	19	1,511	81	19	1,547	82	18	4,160	4,689	4,758
Spain	1,182	75	25	1,173	76	24	1,137	76	24	3,707	3,812	4,041
Netherlands	1,198	84	16	1,173	84	16	1,167	84	16	2,187	2,804	2,800
Italy	851	77	23	830	78	22	812	78	22	2,567	2,043	2,179
Austria	616	82	18	628	82	18	635	81	19	728	707	745
Belgium	374	79	21	361	78	22	370	78	22	465	770	2,856
Finland	311	72	28	321	73	27	362	72	28	811	819	812
Denmark	91	36	64	84	37	63	83	37	63	3	3	1
Hungary	134	42	58	136	43	57	137	43	57	6	3	4
Poland	687	71	29	625	74	26	606	76	24	1,081	882	912
Greece	53	55	45	53	54	46	66	59	41	14	64	70
Czech Republic	67	37	63	68	41	59	71	40	60	1	–	–
Irland	15	67	33	17	70	30	23	75	25	27	26	28
Portugal	21	52	48	21	43	57	24	42	58	71	68	70
Croatia	9	33	67	7	29	71	6	33	67	–	–	–
Romania	31	39	61	24	33	67	26	31	69	10	–	1
Slovakia	746	71	29	761	70	30	779	68	32	652	580	593
Lithuania	25	48	52	23	58	42	23	58	42	–	–	1
Rest of EUR	22	18	82	17	12	88	15	20	80	–	–	–
Total EU excl. Sweden	**13,776**	**77**	**23**	**13,766**	**78**	**22**	**13,915**	**78**	**22**	**28,120**	**28,396**	**31,945**
Rest of Europe												
Russia	1,374	60	40	1,296	59	41	1,275	59	41	1,817	1,431	1,652
Switzerland	30	37	63	29	42	58	29	51	49	88	82	87
Norway	104	38	62	105	36	64	135	32	68	2	2	–
Turkey	235	80	20	264	82	18	221	81	19	402	430	434
Ukraine	68	47	53	67	46	54	73	48	52	4	1	2
Other (rest of Europe)	–	–	–	–	–	–	–	–	–	–	–	–
Total, Rest of Europe	**1,811**	**60**	**40**	**1,761**	**61**	**39**	**1,733**	**59**	**41**	**2,313**	**1,946**	**2,175**
TOTAL EUROPE	**17,577**	**73**	**27**	**17,468**	**73**	**27**	**17,614**	**73**	**27**	**35,727**	**35,048**	**36,892**
North America												
US	3,376	76	24	2,497	75	25	2,507	75	25	14,686	7,805	7,655
Canada	283	65	35	281	64	36	292	63	37	261	224	294
Rest of North America	–	–	–	–	–	–	–	–	–	–	–	–
TOTAL NORTH AMERICA	**3,659**	**75**	**25**	**2,778**	**74**	**26**	**2,799**	**74**	**26**	**19,947**	**8,029**	**7,949**
Latin America												
Mexico	2,389	76	24	2,438	73	27	2,418	74	26	3,370	3,666	4,143
Colombia	3,561	69	31	3,154	69	31	3,091	69	31	2,104	1,880	2,224
Ecuador	1,104	66	34	1,148	59	41	1,108	50	50	305	263	241
Chile	596	80	20	647	83	17	637	85	15	884	792	892
Costa Rica	89	54	46	88	54	46	83	54	46	3	3	3
Brazil	507	62	38	501	61	39	501	57	43	816	411	222
Argentina	345	60	40	302	60	40	298	61	39	69	63	86
Dominican Republic	115	73	27	107	64	36	102	55	45	10	8	9
Peru	12	50	50	10	37	63	24	18	82	–	–	–
Nicaragua	8	37	63	8	37	63	9	33	67	1	1	1
Rest of Latin America	23	52	48	22	50	50	28	43	57	1	5	6
TOTAL LATIN AMERIcA	**8,749**	**70**	**30**	**8,425**	**69**	**31**	**8,299**	**68**	**32**	**7,563**	**7,092**	**7,827**
Asia												
China	8,957	55	45	8,166	53	47	8,222	52	48	13,022	13,135	12,348
Malaysia	1,399	45	55	1,306	44	56	1,275	43	57	845	762	870
Hong Kong	75	39	61	–	–	–	14	21	79	1,323	–	–
Japan	99	21	79	107	22	78	114	22	78	4	5	5
Taiwan	268	56	44	276	57	43	300	57	43	602	552	713
Singapore	30	30	70	32	31	69	30	32	68	9	8	8
India	229	96	4	185	94	6	106	90	10	–	175	158
Rest of Asien	60	43	57	90	29	71	211	19	81	171	156	157
TOTAL ASIA	**11,117**	**54**	**46**	**10,162**	**52**	**48**	**10,272**	**50**	**50**	**15,976**	**14,793**	**14,259**
Rest of the world												
Tunisia	894	88	12	864	88	12	880	89	11	170	180	137
South Africa	20	35	65	108	55	45	143	55	45	3	1	65
Morocco	13	46	54	–	–	–	–	–	–	1	–	–
Egypt	5	–	–	4	–	–	1	–	–	–	2	2
Other (rest of the world)	115	91	9	142	89	11	157	89	11	25	20	23
Total, Rest of the world	**1,047**	**87**	**13**	**1,118**	**85**	**15**	**1,181**	**85**	**15**	**199**	**203**	**227**
Total, Group	**42,149**	**68**	**32**	**39,951**	**69**	**31**	**40,165**	**67**	**33**	**74,412**	**65,165**	**67,154**

[1] Non-current assets comprise Goodwill, Other intangible assets, Buildings, Land, and Machinery and equipment.

B2. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function

SEKm	2016	2015	2014
IS Cost of goods sold	–72,438	–71,898	–64,081
IS Sales, general and administration	–16,965	–16,216	–14,527
IS Amortization of acquisition-related intangible assets	–159	–133	–126
IS TB2:1 Items affecting comparability	–2,825	–786	–1,009
Total	**–92,387**	**–89,033**	**–79,743**

Refer also to note G5 Description of costs.

Operating expenses by type of cost

SEKm	Note	2016	2015	2014
TB2:2 Other income		970	923	1,202
Change in inventory of finished products and products in progress[1]		–82	640	–10
Raw materials and consumables[1]		–36,442	–37,271	–31,366
Personnel costs[1]	C1	–17,983	–16,943	–15,301
TB2:3 Other operating expenses[1]		–33,242	–31,654	–29,917
Amortization of intangible assets	D1	–380	–275	–263
Depreciation of property, plant and equipment	D2	–4,764	–4,489	–4,038
Impairment of intangible assets[1]	D1	–137	–497	–36
Impairment of property, plant and equipment[1]	D2	–420	–375	–52
Impairment of associates[1]		–	–62	–
Gain on sale of securities[1]		–	970	–
Revaluation of acquisitions		–	0[2]	36[2]
Gain/loss on divestment	F6	93	–	2
Total		**–92,387**	**–89,033**	**–79,743**

[1] Including items affecting comparability.
[2] Remeasurement of previous equity portion at fair value in conjunction with acquisition of up to 100% of Vinda Personal Care, Hong Kong.

TB2:1 Items affecting comparability

Distribution of items affecting comparability by function

SEKm	2016	2015	2014
Cost of goods sold	–532	–267	–441
Sales, general and administration	–1,754	–554	–478
Impairment, etc.	–359	–441	–90
Amortization and impairment of acquisition-related intangible assets	–180	–494	–
Gain on sale of securities	–	970	–
Total	**–2,825**	**–786**	**–1,009**

Distribution of items affecting comparability by type of cost

SEKm	2016	2015	2014
Impairment in inventory of finished products and products in progress	–156	–29	–215
Raw materials and consumables	–102	–16	–14
Personnel costs	–76	–295	–289
Other operating expenses	–1,948	–482	–407
Amortization of intangible assets	–43	–	–
Depreciation of property, plant and equipment	–36	–	–32
Impairment of intangible assets	–137	–497	–36
Impairment of property, plant and equipment	–420	–375	–54
Impairment of associates	–	–62	–
Revaluation of acquisitions	–	–	36
Gain/loss on divestment	93	–	2
Gain on sale of securities	–	970	–
Total	**–2,825**	**–786**	**–1,009**

Distribution of items affecting comparability by category

SEKm	2016
Costs for legal disputes	–1,086
Costs for closure of operations in Spain and France	–757
Costs for closure of operations in India	–374
Costs in conjunction with Wausau acquisition	–204
Costs for closure of operations in Mexico	–174
Transaction costs BSN medical	–143
Impairment of Smart Fresh operations	–75
Costs of split of SCA Group into two listed companies	–6
Capital gain on divestment of IL Recycling	99
Other	–105
Total	**–2,825**

In 2015, items affecting comparability related primarily to: impairment of trademarks (SEK –465m) impairment of assets (SEK –375m) and integration costs related to the Georgia-Pacific acquisition (SEK –440m); costs related to the divestment of the business jet operation (SEK –170m); and other which includes transaction costs (SEK –306m) and a gain from the sale of securities (SEK 970m).

In 2014, items affecting comparability related primarily to: restructuring costs and the remeasurement effects of customer relations and inventories in Vinda (SEK –292m); other restructuring costs in the hygiene products operations (SEK –181m); restructuring costs attributable to acquisitions and divestments (SEK –170m); integration costs for the GP acquisition (SEK –122m) and impairment related to the hygiene products operations in Asia (SEK –57m).

For informationon items affecting comparability by segment, refer to Note B1 Segment reporting.

TB2:2 Other income

SEKm	2016	2015	2014
Sales not included in core operations	970	923	1,202
Total	**970**	**923**	**1,202**

TB2:3 Distribution of other operating expenses

SEKm	2016	2015	2014
Transport expenses	–7,120	–7,108	–6,706
Energy costs[1]	–4,448	–4,925	–4,562
Purchased finished goods for resale	–3,739	–3,464	–3,687
Marketing costs	–5,504	–5,207	–4,633
Repairs and maintenance	–2,537	–2,227	–2,114
IT, telephony and lease of premises	–1,445	–1,307	–1,044
Other operating expenses, production	–3,291	–3,417	–3,376
Other operating expenses, distribution, sales and administration	–3,090	–3,340	–3,190
Other	–2,068	–659	–605
Total	**–33,242**	**–31,654**	**–29,917**

[1] After deduction for revenues from energy in the amount of SEK 194m (191; 273)

Other disclosures

Exchange rate effects had a negative impact of SEK –97m (–189; –223) on operating profit. Government grants received reduced operating expenses by SEK 41m (47; 36). Costs for research and development amounted to SEK –1,211m (–1,055; –1,017) during the period.

B3. AUDITING EXPENSES

Auditing expenses

SEKm	2016	2015	2014
PwC			
Audit assignments	–13	–55	–53
Auditing activities other than the audit assignment	–1	–2	–2
Tax consultancy services	–12	–17	–9
Other assignments	–11	–23	–13
Total PwC	**–37**	**–97**	**–77**
Other auditors			
Audit assignments	–5	–4	–4
Tax consultancy services	–4	–4	–3
Other assignments	–2	–8	–7
Total other auditors	**–11**	**–16**	**–14**
EY			
Audit assignments	–49	–	–
Auditing activities other than the audit assignment	–	–	–
Tax consultancy services	–	–	–
Other assignments	–4	–	–
Total EY	**–53**	**–**	**–**
Total	**–101**	**–113**	**–91**

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. The Essity Group 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 the Essity Group 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 and in other comprehensive income, the tax effect is recognized in equity and in other comprehensive income, respectively.

Tax liabilities and tax assets are recognized net when the Essity Group 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 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. As of December 31, 2016, SEK 1,457m was recognized as deferred tax assets based on best assessment of future taxable profits in the Group. At year-end 2016, the Group also had tax loss carryforwards of SEK 4,648m, for which no deferred tax asset had been recognized. 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 and Note G3.

Tax expense

Tax expense (+), tax income (-)

SEKm	2016	%	2015	%	2014	%
Current tax						
Income tax for the period	2,888	35.3	1,879	21.2	2,099	27.5
Adjustments for prior periods	1,654	20.2	120	1.4	–157	–2.0
Current tax expense	**4,542**	**55.5**	**1,999**	**22.6**	**1,942**	**25.5**
Deferred tax						
Changes in temporary differences	–509	–6.2	209	2.3	16	0.1
Adjustments for prior periods	–387	–4.7	218	2.5	119	1.6
Revaluation	285	3.5	–148	–1.7	–138	–1.8
TB4:2 TB4:3 **Deferred tax expense**	**–611**	**–7.4**	**279**	**3.1**	**–3**	**–0.1**
IS **Tax expense**	**3,931**	**48.1**	**2,278**	**25.7**	**1,939**	**25.4**

Current tax liability

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

SEKm	2016	2015	2014
Value, January 1	–60	82	323
Current tax expense	4,542	1,999	1,942
CF TB4:1 Paid tax	–3,782	–2,194	–2,099
Other changes from acquisitions, divestments and reclassifications	–154	–29	–343
Translation differences	–5	39	33
Transactions with shareholders	–366	43	226
Value, December 31	**175**	**–60**	**82**
BS of which current tax liability	915	808	729
BS of which current tax asset	740	868	647

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	2016	%	2015	%	2014	%
IS Profit before tax	8,173		8,856		7,620	
IS Tax expense	3,931	48.1	2,278	25.7	1,939	25.4
Expected tax expense	1,790	21.9	2,026	22.9	1,835	24.1
Difference	**2,141**	**26.2**	**252**	**2.8**	**104**	**1.3**
The difference is due to:						
Permanent differences between accounting and taxable result						
Effects of subsidiary financing	–152	–1.9	–71	–0.8	–21	–0.3
Effects of acquisitions and divestments	53	0.6	–	–	–	–
Taxes relating to profit-taking in the Group	37	0.5	27	0.3	9	0.1
Other permanent effects[1)]	372	4.6	–15	–0.2	188	2.4
Taxes related to prior periods[2)]	1,267	15.5	338	3.8	–38	–0.5
Changes in the value of deferred tax assets[3)]	670	8.2	18	0.2	–75	–1.0
Changes in tax rates	–106	–1.3	–45	–0.5	41	0.6
Total	**2,141**	**26.2**	**252**	**2.8**	**104**	**1.3**

1) Other permanent effects relate primarily to non-deductible costs for ongoing competition cases.

2) Taxes attributable to prior periods for 2016 relate, for the most part, to an ongoing 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. The year 2014 primarily pertains to effects in Taiwan of SEK –54m.

3) The change in value of deferred tax assets for 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 amount for 2015 includes the utilization of uncapitalized losses of SEK –81m in Belgium and SEK 62m relating to the operation in Asia. The change in value of deferred tax assets for 2014 includes SEK –179m relating to the operation in Poland.

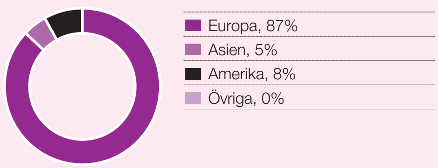
B4. INCOME TAXES, CONT.

TB4:1 Paid tax

Tax payments by Essity's entities in different countries, paid tax (-)

SEKm	2016	2015	2014
Country			
Sweden	–1,310	–79	–65
Germany	–511	–349	–264
Spain	–405	–90	–90
Netherlands	–215	–59	–190
China	–146	–236	–51
Belgium	–144	–80	–91
UK	–131	–115	–102
Italy	–94	–87	–77
Austria	–94	–97	–60
Mexico	–88	–121	–107
Colombia	–83	–72	–179
Ecuador	–67	–41	–21
Russia	–64	–59	–81
Slovakia	–61	–30	–39
Japan	–52	–33	–45
Denmark	–40	–26	–36
Finland	–37	–48	–8
Norway	–30	–41	–34
Costa Rica	–26	–14	–12
Poland	–26	–2	–26
Other countries	–158	–515	–521
CF **Total**	**–3,782**	**–2,194**	**–2,099**

Paid tax by region 2016, % of Group



TB4:2 Deferred tax liability

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

SEKm	Value, January 1	Deferred tax expense	Other changes[5]	Translation differences	Transactions with shareholders	Value, December 31
Intangible fixed assets	1,433	95	97	71	–	1,696
Property, plant and equipment	3,752	–458	1,001	284	–436	4,143
Financial non-current assets	–232	171	–66	8	–	–119
Current assets	–250	–25	9	–6	–	–272
Provisions	–211	–31	–388	–53	10	–673
Liabilities	–872	–711	411	–28	–	–1,200
Tax credits and tax loss carryforwards	–1,017	322	–724	–69	194	–1,294
Other	97	26	7	4	–	134
BS **Total**[4]	**2,700**	**–611**	**347**	**211**	**–232**	**2,415**

[4] The closing deferred tax liability comprises deferred tax assets of SEK 1,457m (1,056; 1,151) and deferred tax liabilities of SEK 3,872m (3,756; 3,231).

[5] Other changes include deferred tax recognized directly in equity according to IAS 19 of SEK –234m, IAS 39 of SEK 136m, changes in tax risk provisions of SEK 575m, changes relating to divestments and acquisitions of SEK –242m and reclassifications of SEK 112m.

TB4:3 Deferred tax liability prior periods

Deferred tax liability (+), tax asset (-) SEKm

Year	Value, January 1	Deferred tax expense	Other changes	Translation differences	Transactions with shareholders	Value, December 31
BS 2015	2,080	279	597	93	–349	2,700
BS 2014	2,599	–3	–915	334	65	2,080

Loss carryforwards

Future tax credits and loss carryforwards for which deferred tax assets were recognized have been reported at the tax amount of SEK 1,294m, shown in TB4:2 .

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 4,648m (2,640; 2,642) gross, at December 31, 2016. The expiry dates of these loss carryforwards are shown in the table below. The change in uncapitalized loss carryforwards for the period includes SEK 85m that has expired and SEK 40m that was either utilized or capitalized. The tax value of uncapitalized tax loss carryforwards amounted to SEK 1,373m (766; 801).

Loss carryforwards in the gross amount for which deferred tax assets were not recognized, SEKm

Year of maturity	2016	2015	2014
Within 1 year	85	88	8
2 years	917	286	9
3 years	1	833	531
4 years	1	27	944
Five years and later	988	815	859
Indefinite life	2,656	566	268
Total	**4,648**	**2,615**	**2,619**

C. EMPLOYEES

C1. PERSONNEL COSTS

No remuneration was paid to Board members and senior executives in Essity Aktiebolag for work in this company. However, the remuneration paid in Svenska Cellulosa Aktiebolaget SCA (publ) for 2016 and 2015 is presented below for information purposes.

Personnel costs

SEKm	Note	2016	2015	2014
Salaries and remuneration		–12,801	–12,066	–10,961
TC3:1 of which Executive Management Team		–131	–154	–135
of which Board relates to allocated costs for the Board of SCA AB		–8	–6	–8
Pension costs		–1,208	–1,170	–1,048
of which defined benefit pension costs	C5	–541	–597	–458
of which other pension costs		–667	–573	–590
Other social security costs		–2,840	–2,728	–2,425
Other personnel costs		–1,134	–979	–867
Total [1)]		**–17,983**	**–16,943**	**–15,301**

1) Costs for implemented efficiency-enhancement activities of SEK –67m (–200; –310) are included in total personnel costs.

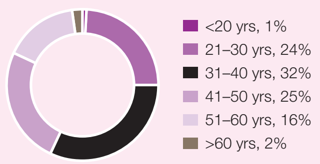
C2. PERSONNEL DATA

Personnel data

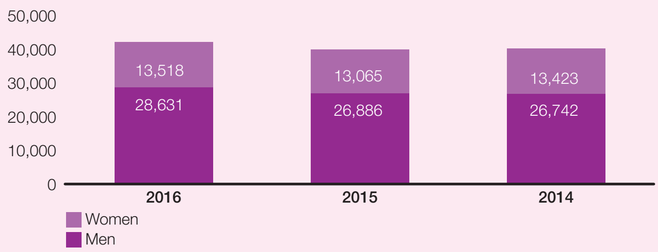
	2016	2015	2014
Employees under 20 years of age, %	1	1	2
Employees over 60 years of age, %	2	2	2
Investments in skills-enhancement activities			
total, SEKm	141	139	111
per employee, SEK	3,400	3,500	2,800
Value added per employee	613	642	568
Proportion of university graduates, %	22	22	22
Employees who left the Group during the period	5,994	5,355	8,069
Employees who joined the Group during the period	8,150	5,823	7,132

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 2016



Average number of employees



In 2016, the Essity Group had employees in 59 countries (60; 62). Women comprised 43% (35; 21) of the total number of Essity Group 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 the Essity Group and equivalents, and the Central Staff Managers.

Annual General Meeting guidelines for remuneration of senior executives

Remuneration to the CEO and other senior executives will be a fixed salary, possible variable remuneration, additional benefits and pension. Other senior executives include the Executive Vice Presidents, 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. Fixed and variable remuneration are to be linked to the manager's responsibility and authority. For the CEO, as well as for other senior executives, the variable remuneration is to be limited and linked to the fixed remuneration. The variable remuneration is to be based on the outcome of predetermined objectives and, as far as possible, be linked to the increase in value of the SCA share, from which the shareholders benefit. Programs for variable remuneration should be formulated so that the Board, if exceptional circumstances prevail, has the possibility to limit, or refrain from, payment of variable remuneration if such an action is considered reasonable and in compliance with the company's responsibility to shareholders, employees and other stakeholders. In the event of termination of employment, the notice period should normally be two years if termination is initiated by the company, and one year, when initiated by the senior executive. Severance pay should not exist. Previously agreed pension benefits in the company are either defined benefit or defined contribution plans, or a combination of both, and can entitle the senior executive to pension from the age of 60, at the earliest. To earn full defined benefit pension benefits, the period of employment must be long-term, at present 20 years. When resigning before the age providing entitlement to pension, the senior executive will receive a paid-up pension policy from the age of 60. Pension benefits in new employment contracts 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 pensionable income. Matters of remuneration to senior executives are to be dealt with by the Remuneration Committee and, as regards the President, be resolved by the Board of Directors.

Company's application of guidelines

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

Fixed salary

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

Variable remuneration

Variable remuneration of the CEO, Executive Vice President and Business Unit Presidents and equivalents is maximized to a total of 100% of the fixed salary. For two Business Unit Presidents, stationed in the Americas, the maximum outcome is 110-130%, 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 to 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 profit and 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 growth. Furthermore, a non-financial goal also applies accounting for 10-30% of the variable remuneration. The long-term portion (Long-Term Incentive, or LTI) may

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

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 SCA shares. The shares may then not be sold before the end of the third calendar 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. The structure of the LTI was approved by the Board in 2003.

Outcome, variable remuneration

For the CEO, Executive Vice Presidents and Central Staff Managers, STI resulted in 25 to 35% of fixed salary for 2016. STI resulted in variable remuneration corresponding to 8 to 37% of fixed salary for the Business Unit Presidents. The LTI target was achieved for 2014–2016, resulting in maximum outcome for the CEO and other senior executives.

Other benefits

Other benefits pertain, in some cases, to a company car, housing and school fees.

Pension

The CEO has a defined contribution pension based on an annual payment, to be paid by the company, amounting to 40% of the employee's fixed salary, and in addition to the agreed premium the basic pension benefits in the ITP plan, with retirement pension benefits limited to a maximum salary income of 7.5 income amounts. The retirement age for the CEO is 65. Five of the other senior executives in the Group in Sweden have a combination of defined benefit and defined contribution pension plans that entitle the executives, on reaching the age of 60, 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, 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 premiums paid by the company. The premiums 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.

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 does not contain any 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 has decided to propose to the 2017 Annual General Meeting certain changes in the guidelines for determining salaries and other remuneration for senior executives for the purpose of simplifying and clarifying the guidelines and their application. In addition, it is proposed that the Board, in individual cases, is entitled to depart from the guidelines on special grounds. With the salary situation prevailing in 2017 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 68m.

Remuneration of senior executives

No remuneration was paid to Board members and senior execitives in Essity Aktiebolag for work in this company. However, the remuneration paid in Svenska Cellulosa Aktiebolaget SCA (publ) for 2016 and 2015 is presented below for information purposes.

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.

Obligations in relation to former presidents and CEOs

For former presidents and CEOs, Essity has outstanding, non-funded obligations amounting to SEK 157m. These costs were recognized in previous years and largely comprise pension obligations.

Remuneration and other benefits during the year 2015

SEK	Fixed salary	Variable remuneration[1]	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth[4]	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 Johansson [3]	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.

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Pension costs 2015[1)]

SEK	
President and CEO Magnus Groth[2)]	3,153,521
Other senior executives (16 people)[3)]	60,803,840
Former President and CEO Jan Johansson[4)]	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

C4. FEES TO BOARD MEMBERS IN THE PARENT COMPANY DURING THE YEAR

No remuneration was paid to Board members and senior execitives in Essity Aktiebolag for work in this company. However, the remuneration paid in Svenska Cellulosa Aktiebolaget SCA (publ) for 2016 and 2015 is presented below for information purposes.

Remuneration to non-executive Board members refers to the fees approved at the AGM on April 14, 2016 for the period until the next AGM in April 2017. No remuneration is paid to the President and CEO and other employees.

	Board fee		Audit Committee fee		Remuneration Committee fee		Total	
SEK	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Pär Boman (Chairman)	2,100,000	2,100,000	200,000	130,000	135,000	135,000	2,435,000	2,365,000
Eva Björling	700,000	–	–	–	–	–	700,000	–
Maija-Liisa Friman	700,000	–	–	–	–	–	700,000	–
Annemarie Gardshol	700,000	700,000	–	–	–	–	700,000	700,000
Leif Johansson	–	700,000	–	–	–	105,000	–	805,000
Louise Svanberg	700,000	700,000	–	–	105,000	105,000	805,000	805,000
Johan Malmquist	700,000	–	–	–	–	–	700,000	–
Bert Nordberg	700,000	700,000	200,000	130,000	105,000	–	1,005,000	830,000
Barbara Milian Thoralfsson	700,000	700,000	250,000	175,000	–	–	950,000	875,000
Total	**7,000,000**	**5,600,000**	**650,000**	**435,000**	**345,000**	**345,000**	**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 below). Actuarial gains and losses (remeasurements) are recognized directly in equity under other comprehensive income in the period in which they arise. The recognized cost for the defined benefit plans include 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 the Essity Group's actual return on the plan assets is included in the remeasurement of the defined benefit net liability (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 premiums the company has undertaken to pay are classified as defined contribution plans. In these plans, it is the employee who bears the investment risk, meaning the risk that the invested assets could be insufficient to generate the anticipated compensation. The Group's payments relating to defined contribution plans are recognized as an expense during the period the employees carry out the service to which the payment relates.

Other post-retirement benefits

Some Group companies provide post-retirement healthcare benefits. The obligation and anticipated costs for these benefits has 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. The Essity Group 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	2016	2015	2014
TC5:2 Defined benefit obligations	30,638	25,561	26,943
TC5:3 Fair value of plan assets	–26,363	–23,839	–22,992
TC5:4 Effect of asset ceiling	663	1,162	1,004
TC5:1 Provision for pensions, net	**4,938**	**2,884**	**4,955**

Surpluses in funded plans recognized as financial non-current assets amounted to BS SEK 335m (35; 3) on the balance sheet date and provisions for pensions totaled BS SEK 5,273m (2,919; 4,958). Defined benefit obligations include obligations in an amount of SEK 2,268m (1,917; 2,157) pertaining to unfunded plans.

The Essity Group has both defined contribution and defined benefit pension plans in a number of subsidiaries. The most significant defined benefit plans are the pension plans in the Netherlands, the UK, Sweden, Germany and the US, as described below.

TC5:1 Provisions for pensions and similar obligations per plan

SEKm Country	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
Netherlands	1,920	1,006	1,040	3,966	–3,673	–	293	23
UK	1,550	6,595	7,095	15,240	–14,405	–	835	20
Sweden	1,061	469	507	2,037	–1,736	–	301	21
Germany	1,180	346	1,042	2,568	–2,466	–	102	16
US	825	135	432	1,392	–1,034	–	358	16
Other	2,339	846	2,250	5,435	–3,049	663	3,049	13
Total	**8,875**	**9,397**	**12,366**	**30,638**	**–26,363**	**663**	**4,938**	

Netherlands

The plan is a defined benefit plan with premiums paid by the company and is managed by an independent fund. Surpluses in the fund remain in the fund assets but can be utilized in the form of premium discounts. The plan is based on average salary and includes 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 in the plan.

United Kingdom

The plan is a defined benefit plan with premiums paid by the company and the employee, and is managed by an independent fund in accordance with British law.

Surpluses in the pension fund remain in the fund assets but can be utilized in the form of premium discounts. The plan is based on final salary and includes beneficiaries' pension and disability pension.

The plan was closed to new participants in July 2007. The plan is obligated to meet the minimum funding level according to an agreement with the pension fund.

Sweden

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 pension is reduced proportionately if the total period of service is less than 30 years. The ITP2 plan is managed by a fund, and the company may compensate itself using any surpluses in the plan assets.

Germany

The plan is a defined benefit plan and, in addition to retirement pension, includes beneficiaries' pension and disability pension. The plan, which is managed by a fund, provides pension as a percentage of a salary interval and is based on final salary. The plan also includes individual pensions based on average salary. No premium payments are required by the company or its employees. The company may compensate itself using any surpluses in the plan assets.

US

The plan includes retirement pension, accident insurance and life insurance. The plan is a defined benefit plan with premiums paid by the company. Benefits are based on a standard amount per service year and are financed through a pension fund. The plan is obligated to meet the minimum legislated funding level. Surpluses in the pension fund can be utilized in the form of premium discounts.

Other

There are a number of minor pension obligations in some 15 countries. Some of the plans are funded.

Costs for the period for defined benefit plans

SEKm	2016	2015	2014
Current service cost, after deduction for premiums paid by the employees	–511	–578	–469
Past service cost	–25	–21	16
Pension tax expense	–27	–52	–28
Remeasurement, net	–5	2	–7
Net interest income/expense	–117	–140	–68
Pension costs before effects of settlements	**–685**	**–789**	**–556**
Settlements	–	–	2
Pension costs after effects of settlements	**–685**	**–789**	**–554**

C5. REMUNERATION AFTER EMPLOYMENT, CONT.

TC5:2 Defined benefit obligations

SEKm	2016	2015	2014
Value, January 1	**25,561**	**26,943**	**20,328**
Current service cost	524	588	474
Interest expense	922	843	848
Past service cost	25	21	–16
Pension tax expense	27	52	28
Settlements and transfers	–16	5	14
Acquisitions and disposals	2,168	–	–
Benefits paid	–1,062	–969	–854
Pension taxes paid	–49	–36	–14
Remeasurement: financial assumptions	3,966	–1,555	3,666
Remeasurement: demographic assumptions	–35	–89	37
Remeasurement: experience-based assumptions	–571	–85	–15
Pension taxes pertaining to remeasurement	30	–219	163
Transactions with shareholders	22	39	–
Translation differences	–874	23	2,284
Value, December 31	**30,638**	**25,561**	**26,943**

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 2016, acquisitions and disposals relate to the acquisition of Wausau.

TC5:3 Plan assets

SEKm	2016	2015	2014
Fair value, January 1	**–23,839**	**–22,992**	**–18,942**
Interest income	–843	–728	–817
Acquisitions and disposals	–1,473	–	–
Contributions by plan participants	–13	–10	–5
Contributions by the employer	–959	–952	–740
Benefits paid, excluding settlements	1,054	964	852
Benefits paid for settlements	30	2	10
Return in excess of recognized interest income	–1,782	–119	–1,308
Administrative expenses for pension obligations	40	24	24
Transactions with shareholders	443	–	–
Translation differences	979	–28	–2,066
Fair value, December 31	**–26,363**	**–23,839**	**–22,992**

For 2016, acquisitions and disposals relate to the acquisition of Wausau.

The plan assets are distributed according to the following classes of assets, 2016:

The plan assets are distributed according to the following classes of assets, 2015:

The plan assets are distributed according to the following classes of assets, 2014:

95% (94; 95) of the plan assets on the balance sheet date were traded on active markets in which market quotations are used for the valuation of assets. As in the preceding year, no financial instruments issued by the Essity Group are included in the fair value of plan assets at December 31, 2016.

TC5:4 Effect of asset ceiling

SEKm	2016	2015	2014
Value, January 1	**1,162**	**1,004**	**916**
Interest expense	38	25	36
Transactions with shareholders	–498	–	–
Other changes to asset ceiling	–39	133	52
Value, December 31	**663**	**1,162**	**1,004**

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	United Kingdom	Eurozone	US
2016				
Discount rate	2.73	2.72	1.31	4.13
Expected salary increase rate	2.75	3.00	2.85	N/A
Expected inflation	1.50	3.00	1.60	N/A
Life expectancy, men[1]	22	22	22	20
Life expectancy, women[1]	25	25	24	22
2015				
Discount rate	3.27	3.85	1.94	4.38
Expected salary increase rate	2.75	3.50	2.85	N/A
Expected inflation	1.50	3.00	1.60	N/A
Life expectancy, men[1]	22	22	22	20
Life expectancy, women[1]	25	25	24	22
2014				
Discount rate	2.46	3.59	1.62	4.11
Expected salary increase rate	3.25	4.00	3.00	N/A
Expected inflation	2.00	3.00	1.75	N/A
Life expectancy, men[1]	23	22	21	20
Life expectancy, women[1]	24	24	24	21

[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%	1,255
Price inflation, incl. salary inflation +0.25%	–853
Longevity +1 year	–1,110

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

Multiemployer plans

The Essity Group 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 2017 were calculated at SEK 920m. Contributions for multiemployer plans for 2017 were calculated at SEK 45m.

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 is 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 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 are 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 possible impairment. When testing for impairment, the assets are grouped in cash-generating units. The Essity Group's cash-generating units coincide with its defined operating segments. 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
The Essity Group 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 initial liability for emission allowances received is dissolved over profit or loss as income in pace with carbon dioxide emissions made. If the emission allowances received do not cover emissions made, the Essity Group makes a provision for the deficit valued at the market value on the balance sheet date. Sales of surplus emission allowances are recognized as income on the delivery date.

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

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

Profit margin assumptions are based on current market prices and costs with an addition for real price reductions and cost inflation as well as assumed productivity development. Growth assumption follow the Group's target of an annual organic growth of above 3%. The growth assumptions are in line with historic outcome and expected global market growth.

The expected sustained future cash flow for periods that are beyond the planning horizon of the strategy plan are extrapolated for a ten-year period from the final year of the strategy plan using assumed sustained growth of 2% (2;2). The value of the cash flows for the period beyond ten years is calculated by applying an operating surplus multiple to estimated sustained cash flow.

D1. INTANGIBLE ASSETS, CONT.

Goodwill

SEKm	2016	2015	2014
Accumulated costs	19,428	15,452	15,722
Accumulated impairment	–175	–40	–62
Total	**19,253**	**15,412**	**15,660**
Value, January 1	**15,412**	**15,660**	**13,768**
Company acquisitions	3,375	–	293
Company divestments	–	–	–
Reclassifications	–	–	25
Impairment	–135	–30	–
Translation differences	601	–218	1,574
BS **Value, December 31**	**19,253**	**15,412**	**15,660**

Intangible assets excluding goodwill

	Trademarks			Licenses, patents and similar rights			Capitalized development costs			Total Other intangible assets		
SEKm	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Accumulated costs	6,782	6,647	6,552	4,472	3,831	3,681	12	35	36	11,266	10,513	10,269
Accumulated amortization	–318	–244	–118	–2,890	–2,424	–2,225	–12	–31	–32	–3,220	–2,699	–2,375
Accumulated impairment	–452	–532	–61	–5	–3	–8	–	–3	–	–457	–538	–69
Total	**6,012**	**5,871**	**6,373**	**1,577**	**1,404**	**1,448**	**–**	**1**	**4**	**7,589**	**7,276**	**7,825**
Value, January 1	**5,871**	**6,373**	**7,129**	**1,404**	**1,448**	**816**	**1**	**4**	**2**	**7,276**	**7,825**	**7,947**
Investments	–	–	–	155	221	115	–	–	–	155	221	115
Sales and disposals	–	–	–	–1	–2	–1	–	–	–	–1	–2	–1
Company acquisitions	33	–	–	180	–	20	–	–	3	213	–	23
Company divestments	–	–	–	–	–	–	–	–	–	–	–	–
Reclassifications	–	76	–1,242	128	–2	591	–	–	–1	128	74	–652
Amortization[1]	–59	–27	–33	–321	–248	–230	–	–	–	–380	–275	–263
Impairment	–	–464	–36	–2	–	–	–	–3	–	–2	–467	–36
Translation differences	167	–87	555	34	–13	137	–1	–	–	200	–100	692
Value, December 31	**6,012**	**5,871**	**6,373**	**1,577**	**1,404**	**1,448**	**–**	**1**	**4**	**7,589**	**7,276**	**7,825**
TD1:1 Emission allowances, net value										76	75	70
BS **Value, December 31 including emission allowances**										**7,665**	**7,351**	**7,895**

[1] Amortization of Trademarks and customer relations is included in Sales, general and administration while for Licenes and patents 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 for 2016, as well as the testing for 2015 and 2014, showed that no impairment was needed. 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 5.8% and 19.2%, 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, which coincide with the defined operating segments, individual assets, goodwill and intangible assets with indefinite useful lives are tested when there is an indication of an impairment need. During the period, goodwill was impaired by SEK –135m, of which SEK –67m in conjunction with the discontinuation of the Baby Care operation in Mexico and SEK –68m related to the discontinuation of Tork SmartFresh. In 2015, goodwill was impaired by SEK –27m in connection with the closure of a French tissue mill. Trademarks in the Asian and Mexican markets were impaired in 2015 by SEK –464m as a result of a weakening market and a new strategy.

Distribution by operating segment

	Goodwill			Trademarks			WACC, before tax %		
SEKm	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Personal Care	3,036	2,757	3,338	1,109	1,069	1,325	11.3	10.3	10.1
Consumer Tissue	9,335	9,416	9,141	4,891	4,792	5,013	8.3	8.6	8.5
Professional Hygiene	6,882	3,239	3,181	12	10	35	8.3	7.9	8.1
Total	**19,253**	**15,412**	**15,660**	**6,012**	**5,871**	**6,373**			

TD1:1 Emission allowances

SEKm	2016	2015	2014
Accumulated costs	88	86	81
Accumulated revaluation of surplus	–12	–11	–11
Total	**76**	**75**	**70**
Value, January 1	**75**	**70**	**80**
Emission allowances received	58	53	50
Purchases	–	4	0
Sales	–	–	–3
Reclassifications	–	0	–
Impairment	–	–	–
Settlement with the government	–64	–50	–52
Revaluation of surplus	–1	–5	–10
Translation differences	8	3	5
Value, December 31	**76**	**75**	**70**

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 includes costs for running-in and start-up. Borrowing costs are included in the cost of investments exceeding SEK 250m that take more than 12 months to complete. Expenses for repairs and maintenance are expensed directly in profit or loss.

Depreciation and impairment

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

Assessed 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
Harbors, railways	20–30
Land improvements	10–20

Carrying amounts

	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
SEKm	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Accumulated costs	20,253	18,293	17,690	3,887	3,917	4,030	71,071	62,420	60,781	3,901	2,774	3,526
Accumulated depreciation	–8,097	–7,059	–6,570	–498	–422	–381	–41,577	–36,235	–34,486	–24	–	–
Accumulated impairment	–331	–255	–225	–64	–66	–21	–992	–965	–740	–35	–	–5
Total	**11,825**	**10,979**	**10,895**	**3,325**	**3,429**	**3,628**	**28,502**	**25,220**	**25,555**	**3,842**	**2,774**	**3,521**
Value, January 1	**10,979**	**10,895**	**9,677**	**3,429**	**3,628**	**3,464**	**25,220**	**25,555**	**24,325**	**2,774**	**3,521**	**2,443**
Investments	191	406	346	26	23	42	2,054	1,731	2,076	3,979	3,329	2,065
Sales and disposals	–12	–2	–10	–11	–2	–31	–107	–132	–31	–	–22	–8
Company acquisitions	511	–	1	27	–	1	2,290	–	52	68	–	2
Company divestments	–	–	–	10	–	–	–	–48	–	–	–	–
Reclassifications	505	849	651	–161	24	–24	2,297	2,842	618	–3,066	–3,915	–941
Depreciation [1]	–707	–757	–611	–44	–45	–44	–3,989	–3,687	–3,383	–24	–	–
Impairment	–159	–39	–6	–102	–45	–3	–127	–291	–43	–32	–	–
Translation differences	517	–373	847	151	–154	223	864	–750	1,941	143	–139	–40
Value, December 31	**11,825**	**10,979**	**10,895**	**3,325**	**3,429**	**3,628**	**28,502**	**25,220**	**25,555**	**3,842**	**2,774**	**3,521**

[1] Included in Cost of goods sold

Total property, plant and equipment

SEKm	**2016**	**2015**	**2014**
Accumulated costs	99,112	87,404	86,027
Accumulated depreciation	–50,196	–43,716	–41,437
Accumulated impairment	–1,422	–1,286	–991
Total	**47,494**	**42,402**	**43,599**
Value, January 1	**42,402**	**43,599**	**39,909**
Investments	6,250	5,489	4,529
Sales and disposals	–130	–158	–80
Company acquisitions	2,896	–	56
Company divestments	10	–48	–
Reclassifications	–425	–200	304
Depreciation [1]	–4,764	–4,489	–4,038
Impairment	–420	–375	–52
Translation differences	1,675	–1,416	2,971
BS **Value, December 31**	**47,494**	**42,402**	**43,599**

[1] Included in Cost of goods sold

Impairment losses for the year totaling SEK –420m are mainly attributable to the restructuring of the tissue operations in France and Spain and the closure of the hygiene operation in India and Baby Care operation in Mexico.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 19m (47; 26) and in construction in progress in an amount of SEK 31m (-; -). The average interest rate used was 10% (8; 2).

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	2016	2015	2014
Raw materials and consumables	3,156	3,582	3,174
Spare parts and supplies	1,443	1,284	1,371
Products in progress	1,262	1,171	1,096
Finished products	5,080	5,183	4,691
Advance payments to suppliers	3	9	11
BS **Total**	**10,944**	**11,229**	**10,343**

Impairment of inventory amounted to SEK 258m (45; 229) during the period. Refer to note B2 for further information.

D4. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2016	2015	2014
VAT receivables	707	667	692
Prepaid expenses and accrued income	485	413	556
Suppliers with debit balance	155	228	190
Receivables for electricity and gas	103	79	77
Receivables from authorities	103	107	99
Derivatives	314	70	70
Receivables from associates	–	–	–
Other receivables	466	536	504
BS **Total**	**2,333**	**2,100**	**2,188**

D5. OTHER LIABILITIES

Other liabilities

SEKm	2016	2015	2014
Other non-current liabilities			
Derivatives	2	108	57
Other non-current liabilities	70	38	40
BS **Total**	**72**	**146**	**97**
Of which items that fall due for payment later than within five years	28	16	19
Other current liabilities			
Derivatives	76	379	321
TD5:1 Accrued expenses and prepaid income	8,843	7,950	7,424
Other operating liabilities	2,685	2,416	2,420
BS **Total**	**11,604**	**10,745**	**10,165**

TD5:1 Accrued expenses and prepaid income

SEKm	2016	2015	2014
Accrued social security costs	375	360	292
Accrued vacation pay liability	625	529	439
Other liabilities to personnel	1,039	935	854
Bonus and discounts to customers	4,039	3,760	3,616
Other items	2,765	2,366	2,223
Total	**8,843**	**7,950**	**7,424**

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. Considering the tax risks it is also based on the Essity group's best assessment, which was determined in consultation with local tax expertise.

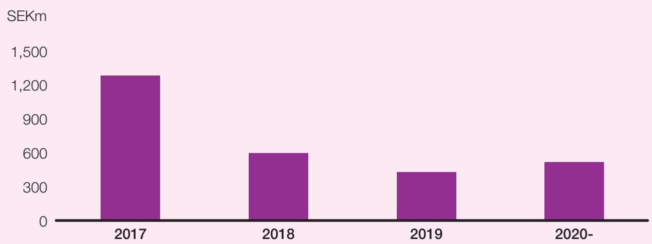
Other provisions 2016

SEKm	Efficiency programs	Tax risks	Environment	Legal disputes	Other	Total
Value, January 1	**473**	**784**	**85**	**48**	**385**	**1,775**
Provisions	738	91	69	1,173	94	2,165
Utilization	–335	–358	–64	–312	–41	–1,110
Reclassifications	–	–	–14	96	–67	15
Dissolutions	–21	–	–2	–2	–40	–65
Translation differences	27	3	–3	6	3	36
Value, December 31	**882**	**520**	**71**	**1,009**	**334**	**2,816**
Provisions comprise:						
BS Short-term component						1,409
BS Long-term component						1,407

For 2015 provisions amounted to SEK 852m, utilization to SEK –571m, reclassification to SEK 109m, and dissolutions and translation difference to SEK –111m.

For 2014 provisions amounted to SEK 751m, utilization to SEK –652m, reclassification to SEK 30m, and dissolutions and translation difference to SEK 5m.

Distribution of other provisions by maturity



Of the provisions for the period for "Environment" SEK 68m pertains to a liability for carbon dioxide emissions, which will be paid out in 2017. Of the "Efficiency programs" provisions, SEK 335m was paid out in 2016. The provisions for efficiency programs consist of personnel costs and closure costs in connection with restructuring measures. Tax risks mainly comprise one tax dispute attributable to Denmark. Legal disputes mainly consist of reserves relating to competition cases, primarily attributable to Poland, Chile, Hungary and Spain. During the year provisions and payments were also made relating to a competition case in Colombia. The provisions for legal disputes were impacted by reclassification between the categories. Other provisions mainly comprise reserves in connection with prior divestments of operations, a reserve for final settlement of a prior investment and a reserve for potential packaging costs.

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 the Essity Group has met its commitments.

The Essity Group 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, the Essity Group 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, the Essity Group 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 and, if such is the case, they are recognized continuously at fair value through profit or loss. 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 the Essity Group 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 the Essity Group provides money, goods or services directly to another party without any intention of conducting trading in the receivables. 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.

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

Financial instruments by category and measurement level

SEKm	Note	Measurement level	2016	2015	2014
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	52	41	–
Derivatives – Other non-current assets	E2	2	48	2	2
Derivatives – Current financial assets	E2	2	169	465	761
Derivatives – Other current receivables	D4	2	171	70	67
Total			**440**	**578**	**830**
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	16,021	10,967	12,904
Current financial liabilities	E4	2	425	5,634	4,126
Derivatives – Non-current financial liabilities	E4	2	19	–	23
Derivatives – Current financial liabilities	E4	2	502	467	369
Derivatives – Other non-current liabilities	D5	2	–	51	13
Derivatives – Other current liabilities	D5	2	55	127	149
Total			**17,022**	**17,246**	**17,584**
Loan and trade receivables					
Non-current financial assets	E2	–	24	233	242
Current financial assets	E2	–	61	43	286
Trade receivables	E3	–	15,843	14,808	14,912
Cash and cash equivalents	E2	–	4,244	4,828	3,806
Total			**20,172**	**19,912**	**19,246**
Available-for-sale financial assets					
Non-current financial assets	E2	1	82	75	1,807
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	15,256	10,381	11,264
Current financial liabilities	E4	–	4,059	6,280	9,992
Trade payables	–	–	12,972	11,869	11,800
Total			**32,287**	**28,530**	**33,056**
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	556	379	794
Other non-current assets	–	2	106	–	–
Other current receivables	D4	2	143	–	3
Current financial assets	E2	2	14	268	213
Total			**819**	**647**	**1,010**
Non-current financial liabilities	E4	2	3	115	8
Other non-current liabilities	D5	2	2	57	44
Current financial liabilities	E4	2	103	21	304
Other current liabilities	D5	2	21	252	172
Total			**129**	**445**	**528**

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 the Essity Group's assessment, the fair value essentially corresponds to the carrying amount, with the exception of non-current liabilities, the fair value of which is recognized in Note E4 Financial liabilities.

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

		2016		2015		2014	
SEKm	Note	Financial instruments	Of which derivatives	Financial instruments	Of which derivatives	Financial instruments	Of which derivatives
Assets							
Financial assets, cash and cash equivalents	E2	5,202	791	6,332	1,153	7,909	1,768
Other non-current assets		154	154	2	2	2	2
Trade receivables	E3	15,843	–	14,808	–	14,912	–
Other current receivables	D4	314	314	70	70	70	70
Total		**21,513**	**1,259**	**21,212**	**1,225**	**22,893**	**1,840**
Liabilities							
Financial liabilities	E4	36,388	627	33,865	603	38,990	704
Other non-current liabilities	D5	2	2	108	108	57	57
Trade payables		12,972	–	11,869	–	11,800	–
Other current liabilities	D5	76	76	379	379	321	321
Total		**49,438**	**705**	**46,221**	**1,090**	**51,168**	**1,082**

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

AP ACCOUNTING PRINCIPLES

Cash and cash equivalents are defined as cash and bank balances as well as short-term 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

	Carrying amount		
SEKm	2016	2015	2014
Non-current financial assets			
TE2:1 Available-for-sale financial assets	82	75	1,807
Derivatives	608	420	751
Loan receivables, associates	–	207	270
Loan receivables, other	24	26	15
BS **Total**	**714**	**728**	**2,843**
Current financial assets			
Financial assets	19	–	2
Derivatives	183	733	974
Accrued financial income	–	1	8
Loan receivables, other	42	42	276
BS **Total**	**244**	**776**	**1,260**
Cash and cash equivalents			
Cash and bank balances	2,888	2,340	3,014
Short-term investments < 3 months	1,356	2,488	792
BS **Total**	**4,244**	**4,828**	**3,806**
Total financial assets, cash and cash equivalents	**5,202**	**6,332**	**7,909**

Cash and cash equivalents at December 31, 2016 include SEK 1,672m (1,088) that is not fully available for use by the Essity Group 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	2016	2015	2014
Value, January 1	**75**	**1,807**	**1,649**
Investments	4	–	12
Divestment of securities	–	–2,046	–
Remeasurement taken to equity, net	–1	318	140
Translation differences	4	–4	6
Value, December 31	**82**	**75**	**1,807**

Available-for-sale financial assets

SEKm	2016	2015	2014
Shares – AB Industrivärden	–	–	1,729
Pension assets not included in IAS 19 calculation	82	75	77
Other	–	–	1
Total	**82**	**75**	**1,807**

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.

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 the Essity Group's operating profit. Translation differences on trade receivables are recognized on the line net sales. The Essity Group's trade receivables are generally current and are not discounted.

Trade receivables

SEKm	2016	2015	2014
Trade receivables, gross	16,116	15,017	15,104
Provision to reserves for doubtful receivables	–273	–209	–192
BS TE3:1 **Total**	**15,843**	**14,808**	**14,912**

TE3:1 Analysis of credit risk exposure in trade receivables

SEKm	2016	2015	2014
Trade receivables neither overdue nor impaired	14,175	13,432	13,251
Trade receivables overdue but not impaired			
< 30 days	1,161	897	1,138
30–90 days	276	245	375
> 90 days	231	234	148
Trade receivables overdue but not impaired	**1,668**	**1,376**	**1,661**
Total	**15,843**	**14,808**	**14,912**

The Essity Group's customer structure is dispersed, with customers in many different areas of business. In 2016, the Essity Group's ten largest customers accounted for 26.6% (26.4; 28.4) of the Essity Group's net sales. The single largest customer accounted for 4.0% of sales. More information is available in the section on credit risks in Note E8 Financial risks.

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 867m (1,593; 1,512). Of this amount, SEK 59m (767; 454) relates to the category Trade receivables overdue but not impaired.

Provision to reserves for doubtful receivables

SEKm	2016	2015	2014
Value, January 1	**–209**	**–192**	**–165**
Provision for possible loan losses	–95	–67	–25
Confirmed losses	21	38	7
Increase due to acquisitions	–	–	–9
Decrease due to reversal of provisions for possible loan losses	15	4	13
Translation differences	–5	8	–13
Value, December 31	**–273**	**–209**	**–192**

The expense for the period for doubtful receivables amounted to SEK –80m (–63; –12). Of this amount, a major portion relates to bad debt losses in Greece.

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

The main principle for recognition of the Essity Group'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 intere- st 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 the income statement.

Financial liabilities

SEKm	2016	2015	2014
Current financial liabilities			
Amortization within one year	256	471	497
Bond issues	–	7,445	4,177
Derivatives	604	480	674
Loans with maturities of less than one year	4,132	3,900	9,267
Accrued financial expenses	97	106	176
BS **Total**[1]	**5,089**	**12,402**	**14,791**
Non-current financial liabilities			
Bond issues	18,708	14,725	14,646
Derivatives	23	123	31
Other long-term loans with maturities > 1 year < 5 years	8,078	3,150	5,400
Other long-term loans with maturities > 5 years	4,490	3,465	4,122
BS **Total**	**31,299**	**21,463**	**24,199**
Total financial liabilities	**36,388**	**33,865**	**38,990**
Fair value of financial liabilities	36,719	33,814	39,170

[1] Fair value of short-term loans is estimated to be the same as the carrying amount.

E4. FINANCIAL LIABILITIES, CONT.

Borrowing

The Essity Group has a Euro Medium Term Note (EMTN) program with a program amount of EUR 4,000m (SEK 38,233m) for issuing bonds in the European capital market. As of December 31, 2016, a nominal EUR 2,217m (2,441; 2,043) was outstanding with a remaining maturity of 4.8 years (4.1; 3.4).

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm
Notes SEK 600m	2019	603	602
Notes SEK 900m	2019	910	908
Green bond SEK 1,500m	2019	1,499	1,522
Notes EUR 300m	2020	2,895	2,871
Notes EUR 500m	2021	4,733	4,739
Notes EUR 500m	2023	5,157	5,269
Notes EUR 300m	2025	2,911	2,921
Total		**18,708**	**18,832**

The Essity Group 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	750
Commercial paper EUR 400m	909
Total	**1,659**

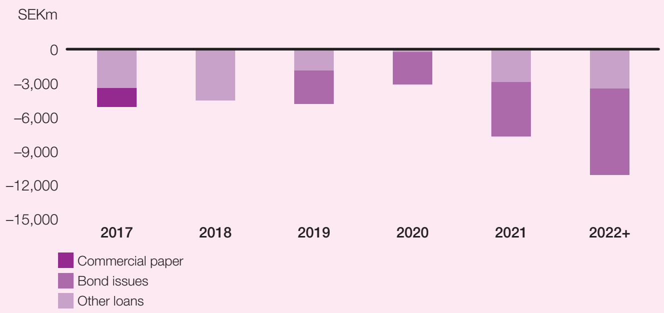
1) Included in Loans with maturities of less than one year in the Financial liabilities table.

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

Credit facilities

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 1,000m	2021	9,558	–	9,558
	EUR 1,000m	2019	9,558	–	9,558
Bilateral credit facilities	SEK 48m	2017	48	–	48
Total			**19,164**	**–**	**19,164**

Maturity profile of gross debt[1)]



1) Gross debt includes accrued interest in the amount of SEK 97m.

After additions for net pension provisions and financial liabilities, Group companies, and with deductions for cash and cash equivalents, interest-bearing receivables, capital investment shares and financial receivables, Group companies, the net debt was SEK 35,173m (19,058; 25,066). For a description of the methods used by the Essity Group to manage its refinancing risk, refer to Note E8 Financial risks.

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 how the Essity Group manages its liquidity risk, refer to Note E8 Financial risks.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 5 years	More than 5 years
2016			
Loans including interest	4,791	21,033	11,475
Net settled derivatives	–6	–27	–
Energy derivatives	29	1	–
Trade payables	12,790	182	–
Total	**17,604**	**21,189**	**11,475**
Gross settled derivatives[1)]	38,315	2,443	1,373
2015			
Loans including interest	12,151	12,476	10,284
Net settled derivatives	–18	–76	–69
Energy derivatives	357	96	–
Trade payables	11,796	73	–
Total	**24,286**	**12,569**	**10,215**
Gross settled derivatives[1)]	41,262	1,025	293
2014			
Loans including interest	14,668	17,822	7,791
Net settled derivatives	197	9	–
Energy derivatives	244	57	–
Trade payables	11,718	82	–
Total	**26,827**	**17,970**	**7,791**
Gross settled derivatives[1)]	34,964	2,195	–

1) The gross settled derivatives have, largely, corresponding positive cash flows and therefore in the Essity Group's opinion 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 cases in which the forecast cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative gain or loss that is recognized in equity under other comprehensive income is transferred directly to profit or loss. Cash flow hedges relating to energy affect the energy costs, that is, cost of goods sold. Transaction exposure's cash flow hedges affect consolidated net sales and expenses. Cash flow hedges relating to interest expenses affect net financial items.

Hedges of net investments in foreign operations

Gains and losses on remeasurement of derivatives intended to hedge the Essity Group's net investments in foreign operations are recognized in equity

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

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 with changes in fair value of the asset or liability exposed to the hedged risk. For the Essity Group, this means that non-current loans that are subject to hedge accounting are discounted without a credit spread to the market interest rate and meet inherent interest rate derivatives' discounted cash flows at the same interest rate.

Financial hedges

When the Essity Group 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
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
2014				
Nominal	64,773	44,793	17,718	2,262
Asset	1,839	893	931	15
Liability	1,082	575	207	300

1) Nominal SEK 110,115m (135,448; 82,957) is outstanding before the right of set-off.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
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**
December 31, 2014		
Gross amount	3,163	2,406
Offsettable amount	–1,324	–1,324
Net amount recognized in the balance sheet	1,839	1,082
ISDA agreements whose transactions are not offset in the balance sheet	–567	–567
Net after offsetting in accordance with ISDA agreements	**1,272**	**515**

Balance sheet

The Essity Group uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how the Essity Group manages these risks, refer to Note E8 Financial risks. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2016. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category. In addition, the Essity Group acts as an internal bank in the SCA Group, which is why internal derivative positions exist for derivatives agreements concluded by Forest Products for hedging purposes in its operations. The Essity Group has subsequently concluded agreements for corresponding derivatives with external parties. For information concerning derivative agreements concluded that relate to Forest Products, refer to Note G4 Transactions with related parties.

Income statement

Hedges pertaining to transaction exposure had an impact of SEK 64m (46; –45) on operating profit for the period. At year-end, the net market value amounted to SEK 45m (28; –77), of which derivative agreements with a market value of SEK 17m (24; –28) were signed on behalf of Forest Products. Currency hedges reduced the cost of non-current assets by SEK 5m (reduced: 1; increased: 3). At year-end, the net market value amounted to SEK 24m (–17; 4), of which derivative agreements with a market value of SEK 25m (–21; 3) were signed on behalf of Forest Products.

Energy derivatives had an impact of SEK –239m (–241; –197) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 317m (–426; –286) at year-end, of which derivative agreements with a market value of SEK 87m (–100; –58) were signed on behalf of Forest Products. Derivatives impacted net interest items in an amount of SEK –68m (16; 175). The net market value of outstanding interest rate derivatives amounted to SEK 550m (417; 724) at year-end. For further information relating to net financial items, see Note E7 Financial income and expenses.

Sensitivity analysis

The Essity Group has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2016 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 4m (6; 49).

If the Swedish krona had unilaterally weakened/strengthened by 5%, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 1m (0; 0). If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 203m (146; 188). In addition to the earnings impact, equity would have increased/decreased by SEK 107m (57; 71). 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	Assets	Liabilities	Net	Tax	Hedge reserve after tax
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**
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

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Outstanding derivatives with hedge accounting [1]

SEKm	Assets	Liabilities	Net	Tax	Hedge reserve after tax
2014					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	3	–206	–203	60	–143
Interest rate risk	–	–8	–8	2	–6
Currency risk	14	–9	5	–1	4
Total	**17**	**–223**	**–206**	**61**	**–145**
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk[2]	281	–1,263	–982		
Fair value hedges					
Interest rate risk	920	–171	749		
Total	**1,218**	**–1,657**	**–439**	**61**	**–145**

[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 E9 Equity. 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 2017. With unchanged exchange rates, profit after tax will be affected positively in an amount of SEK 2m (0; 3). Currency derivatives relating to hedging of the cost of non-current assets have a maturity spread until June 2019. With unchanged exchange rates, the cost of non-current assets will increase by SEK 2m (increase: 9; decrease: 1) after tax.

Derivatives pertaining to hedging of interest expenses were concluded in 2015. The derivatives intended to hedge energy costs in the Group mature during 2017 and 2018. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 164m (neg: 220; neg: 143).

Hedging of net investments

The Essity Group has hedged net investments in a number of selected legal entities in order to achieve the desired hedging level for foreign capital employed. The result of hedging positions affected equity in 2016 by a total of SEK –437m (58; –1,497). This result is largely due to hedges of net investments in EUR. The total market value of outstanding hedging transactions at the end of the period was SEK 167m (601; –982). In total at year-end, the Essity Group hedged net investments outside Sweden amounting to SEK –11,405m. The Essity Group's total foreign net investments at year-end amounted to SEK 54,568m.

E7. FINANCIAL INCOME AND EXPENSES

Financial income and expenses

SEKm	2016	2015	2014
Results from shares and participations in other companies			
Dividend	2	80	82
Interest income and similar profit items			
Interest income, investments	186	180	332
Other financial income	14	52	2
Total financial income	**202**	**312**	**416**
Interest expenses and similar loss items			
Interest expenses, borrowing	–843	–1,067	–1,267
Interest expenses, derivatives	–92	7	208
Fair value hedges, unrealized	24	9	–33
Other financial expenses	–126	–89	–64
Total financial expenses	**–1,037**	**–1,140**	**–1,156**
Total	**–835**	**–828**	**–740**

Other financial income and expenses include an exchange difference of SEK 14m (52; 2).

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 103m (43; 75) higher/lower. Sensitivity analysis calculations have been performed on the risk to which the Essity Group was exposed at December 31, 2016 using assumptions on market movements that are regarded as reasonably possible in one year's time.

For a description of how the Essity Group manages its interest rate risk, refer to Note E8 Financial risks.

E8. FINANCIAL RISKS

Risk	Policy/Action

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 the Essity Group 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.

Currency	Sales %	Costs %	Operating profit[1) SEKm]	Closing rate, December 31, 2016	Average rate 2016
EUR	38	39	3,854	9,5582	9,4560
USD	17	29	-8,679	9,0840	8,5435
CNY	10	6	4,930	1,3079	1,2866
GBP	8	4	4,939	11,1624	11,5778
MXN	4	3	1,516	0,4390	0,4585
COP	3	3	420	0,0030	0,0028
RUB	3	3	772	0,1492	0,1282
CAD	2	1	307	6,7339	6,4538
Other	15	12	3,774		
TOTAL	**100**	**100**	**11,833**		

1) Operating profit, 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 -892m (-1,586; -381). At year-end, a net flow against SEK corresponding to three months of the forecast flow for 2017 was hedged. The majority of hedges mature during the first quarter of 2017. The forecast and hedges of the 2017 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.

Forecast and hedges relating to flows in 2017

Currency	Net flows SEKm	Currency inflows SEKm	Currency outflows SEKm	Hedged inflows %	Hedged outflows %
CNY	3,697	3,697	0	0	0
GBP	3,210	3,688	-478	0	0
RUB	987	1,039	-52	0	0
PLN	975	2,154	-1,179	2	0
NOK	799	808	-9	0	0
CHF	761	818	-57	0	0
MXN	759	1,752	-993	1	0
DKK	595	644	-49	0	0
Other	2,529	4,365	-1,836	2	0
EUR	-382	11,710	-12,092	2	0
SEK	-892	5,839	-6,731	0	26
USD	-13,038	3,171	-16,209	0	2

Translation exposure
The policy relating to translation exposure for foreign net assets is to hedge a sufficient proportion in relation to SEK so that the Group's debt/equity ratio is unaffected by exchange rate movements. Hedging takes place by financing a certain portion of capital employed in foreign currencies with loans and derivatives in corresponding currencies. The optimal degree of matching in connection with hedging depends on the current consolidated debt/equity ratio. Translation exposure in the income statements of foreign subsidiaries is not currency-hedged.

At December 31, 2016, capital employed in foreign currency amounted to SEK 74,306m (63,895; 70,159). Distribution by currency is shown in the table to the right. At year-end, capital employed was financed in the amount of SEK 19,732m (17,315; 18,642) in foreign currency, which is equivalent to a total matching ratio of 27% (27; 27).

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

Financing of capital employed

Currency	Capital employed SEKm	Net debt SEKm	Matching financing 2016 %	Matching financing 2015 %
EUR	25,016	4,658	19	28
USD	14,419	5,566	39	30
CNY	13,402	4,026	30	33
MXN	4,309	1,221	28	29
GBP	4,306	1,072	25	11
COP	2,599	462	18	28
RUB	2,209	515	23	24
Other	8,046	2,212	27	11
Total currencies	**74,306**	**19,732**	**27**	**27**
SEK	447	15,441		
Total	**74,753**	**35,173**		

Credit risk

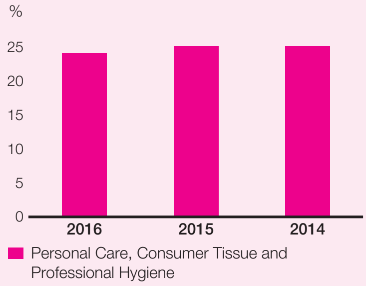
Credit risk refers to the risk of losses due to a failure to meet payment obligations by the Essity Group's counterparties in financial agreements or by customers.

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.

The Essity Group 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 5,214m (6,591; 6,189). This exposure includes credit risk for financial investments in the amount of SEK 4,244m (4,828; 3,806). Credit exposure in derivative instruments amounted to SEK 971m (753; 1,272) at December 31, 2016. There is also exposure to Forest Products, see Note G4 Transactions with related parties.

Ten largest customers' share of outstanding accounts receivable



E8. FINANCIAL RISKS, CONT.

Risk	Policy/Action

Liquidity and refinancing risk

Risk

Liquidity and refinancing risk is the risk that the Essity Group 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, the Essity Group strives to maintain a solid investment grade rating.

The Essity Group 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. The Essity Group 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. The Essity Group'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 the Essity Group'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.

The Essity Group's net debt increased by SEK 16,115m in 2016. At year-end, the average maturity of gross debt was 4.0 years (3.5; 2.6). 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 19,164m at year-end. In addition, cash and cash equivalents totaled SEK 4,244m. For further information, see Note E2 Financial assets, cash and cash equivalents, and Note E4 Financial liabilities.

Liquidity reserve

SEKm	2016	2015	2014
Unutilized credit facilities	19,164	18,583	19,396
Cash and cash equivalents	4,244	4,828	3,806
Total	**23,408**	**23,411**	**23,202**

	2016	2015	2014
Net sales	101,238	98,519	87,997
Liquidity reserv[1]	23%	24%	26%

[1] Liquidity reserve in percentage in relation to Net sales.

Interest rate risk

Risk

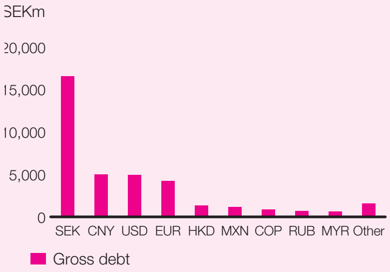
Interest rate risk relates to the risk that movements in interest rates could have a negative impact on the Essity Group. The Essity Group is affected by interest rate movements through its net financial income and expense.

Policy/Action

The Essity Group seeks to achieve a good spread of its interest maturity dates to avoid large volumes of renewals occurring at the same time. The Essity Group's policy is to raise loans with floating rates, since it is the Essity Group'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.

The Essity Group's net financial items increased in 2016 as a result of higher borrowing. The Essity Group's largest funding currencies are denominated in SEK, CNY and USD; refer to the graph. To achieve the desired fixed interest period and currency balance, the Essity Group uses financial derivatives. The average interest period for the gross debt, including derivatives, was 8.5 months (9.2; 8.3) at year-end. The average interest rate for the total outstanding net debt including derivatives, amounted to 2,26% (3,11; 2,75) at year-end.

Gross debt distributed by currency



E9. 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 Essity's treasury 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, in accordance with the basis for preparation, transactions considered to be transfers between companies that are jointly controlled are recognized as separate transactions with shareholders as shown below.

Equity totaled SEK 39,580m (48,275; 44,925) at December 31, 2016. The following tables show the distribution and profit for the period.

SEKm	Share capital	Reserves[1]	Retained earnings	Equity attributable to the Essity Group's shareholders	Non-controlling 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/loss for the period, net after tax		**2,560**	**–1,138**	**1,422**	**235**	**1,657**
Comprehensive income/loss 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**
SEKm						
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/loss for the period, net after tax		**–2,514**	**1,498**	**–1,016**	**–215**	**–1,231**
Comprehensive income/loss 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; see specification below.
[2] Including payroll tax.
[3] For a specification of income tax attributable to components in other comprehensive income, see below.

E9. EQUITY, CONT.

SEKm	Share capital	Reserves[1)]	Retained earnings	Equity attributable to the Essity Group's shareholders	Non-controlling interests	Total equity
Value, January 1, 2014	**0**	**568**	**37,323**	**37,891**	**4,540**	**42,431**
IS Profit for the period recognized in profit or loss			**5,212**	**5,212**	**469**	**5,681**
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)]			–2,595	–2,595		–2,595
Income tax attributable to components in other comprehensive income			587	587		587
			–2,008	**–2,008**	**–**	**–2,008**
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		140		140		140
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		–463		–463		–463
Transferred to profit or loss for the period		344		344		344
Transferred to cost of hedged investments		3		3		3
Translation differences in foreign operations		4,553		4,553	572	5,125
Result from hedging of net investments in foreign operations		–1,497		–1,497		–1,497
Tax on items recognized directly in/transferred from equity[3)]		367		367		367
Other comprehensive income/loss for the period, net after tax		**3,447**	**–2,008**	**1,439**	**572**	**2,011**
Comprehensive income/loss for the period		**3,447**	**3,204**	**6,651**	**1,041**	**7,692**
Issue cost in associates			–49	–49	–	–49
Acquisition of non-controlling interests			–112	–112	–61	–173
Effect of confirmation of acquisition balance sheet				–	–42	–42
Transactions with shareholders			–4,706	–4,706		–4,706
Dividend to non-controlling interests			–	–	–228	–228
BS Value, December 31	**0**	**4,015**	**35,660**	**39,675**	**5,250**	**44,925**

1) Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Reserves line in the balance sheet; see specification below.
2) Including payroll tax.
3) For a specification of income tax attributable to components in other comprehensive income, see below.

At end of the fiscal year, Essity Aktiebolag had 5,000 shares with a quotient value of SEK 100. In light of the fact that the number of shares hereafter is to reflect the ultimate Parent Company SCA AB's average number of shares outstanding, which amounts to 702.3 million shares, this number of shares has been used in the calculation of earnings per share.

Equity, specification of reserves

	Revaluation reserve[1)]			Hedge reserve[2)]			Available-for-sale assets			Translation reserve		
SEKm	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Value, January 1	**107**	**107**	**107**	**–229**	**–145**	**–58**	**7**	**659**	**519**	**1,616**	**3,394**	**–**
Available-for-sale financial assets:												
Result from measurement at fair value recognized in equity							–1	318	140			
Transferred to profit or loss upon sale								–970				
Cash flow hedges:												
Result from remeasurement of derivatives recognized in equity				275	–450	–463						
Transferred to profit or loss for the period				274	342	344						
Transferred to cost of hedged investments				–19	–	3						
Translation differences in foreign operations[3)]				–1	5	–9				2,509	–1,734	4,562
Result from hedging of net investments in foreign operations										–437	–58	–1,497
Tax on items recognized directly in/transferred from equity				–136	19	38				96	14	329
Other comprehensive income/loss for the period, net after tax				**393**	**–84**	**–87**	**–1**	**–652**	**140**	**2,168**	**–1,778**	**3,394**
Value, December 31	**107**	**107**	**107**	**164**	**–229**	**–145**	**6**	**7**	**659**	**3,784**	**1,616**	**3,394**

1) Revaluation reserve includes effect on equity of step acquisitions.
2) See also Note E6 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 –13m (–; –).

Specification of income tax attributable to other comprehensive income for the period

	2016			2015			2014		
SEKm	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Actuarial gains and losses relating to defined benefit pension plans	–1,569	421	–1,148	1,933	–418	1,515	–2,595	587	–2,008
Available-for-sale financial assets	–1	–	–1	–652	–	–652	140	–	140
Cash flow hedges	530	–136	394	–108	19	–89	–116	38	–78
Translation differences in foreign operations	2,742		2,742	–1,944	–	–1,944	5,125	–	5,125
Other comprehensive income from associates	12	–1	11	–17	–	–17	–	–	–
Result from hedging of net investments in foreign operations	–437	96	–341	–58	14	–44	–1,497	329	–1,168
Other comprehensive income/loss for the period	**1,277**	**380**	**1,657**	**–846**	**–385**	**–1,231**	**1,057**	**954**	**2,011**

At December 31, 2016, the debt/equity ratio amounted to 0.89 (0.39; 0.56). Change in liabilities and equity is described under Financial position. Svenska Cellulosa Aktiebolaget SCA Group's target for capital structure is to establish an effective capital structure, while at the same time ensuring long-term access to loan

E9. EQUITY, CONT.

financing. Cash flow in relation to net debt is to be taken into consideration in the target to maintain a solid investment grade rating. Svenska Cellulosa Aktiebolaget SCA Group has a credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. The Essity Group has a tentative credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. The Essity Group's financial risk management is described in Note E8 Financial risks.

FINANCIAL POSITION

Assets and capital employed

The Group's total assets declined 1% compared with the preceding year, amounting to SEK 114,284m (115,351). Non-current assets rose SEK 10,041m compared with the preceding year to SEK 78,290m, of which property, plant and equipment increased SEK 5,092m to SEK 47,494m and intangible assets increased SEK 4,155m to SEK 26,918m. Current and strategic capital expenditures in property, plant and equipment amounted to SEK 6,250m and depreciation for the year to SEK 4,764m.

Current assets decreased SEK 11,108m to SEK 35,994m (47,102). Working capital amounted to SEK 4,143m (5,165). Capital employed was 11% higher and totaled SEK 74,753m (67,333). 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 54,568m at year end. In 2015, the Group's foreign net assets totaled SEK 46,575m.

Equity

The Group´s consolidated equity amounted to SEK 39,580m (48,275) at year end. Profit for the period increased equity by SEK 4,242m (6,578), while shareholder dividends to non-controlling interests reduced equity by SEK 190m. Equity was reduced due to the fair value measurement of pension assets, and an update of the assumptions and assessments that influence the valuation of pension obligations, net, by SEK 1,148m after tax. The measurement of financial instruments to fair value increased equity by SEK 392m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 2,402m.

Equity increased as a result of a private placement to non-controlling interests in Vinda by SEK 431m and decreased due to the acquisition of non-controlling interests by SEK 156m. Other comprehensive income in associates increased equity by SEK 11m after tax, while transactions with SCA's forest products operation reduced equity by SEK 14,679m.

Financing

The Group's interest-bearing gross debt amounted to SEK 36,873m (34,716) at year-end. The maturity period was 4.0 (3.5) years.

Net debt amounted to SEK 35,173m (19,058) at year-end. Net cash flow increased net debt by SEK 13,967m. 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, increased net debt by SEK 1,570m. The effect of fair value measurement is largely attributable to assumptions of a lower discount rate that increases pension liabilities. Exchange rate movements increased net debt by SEK 578m.

Key figures

The debt/equity ratio was 0.89 (0.39). Excluding pension liabilities, the debt/equity ratio was 0.76 (0.34). The visible equity/assets ratio was 29% (37). Adjusted return on capital employed and equity1) was 16.2% (14.9) and 14.5% (14.5) respectively. The capital turnover rate was 1.38 (1.41). At year-end, working capital amounted to 4% (5) of net sales.

1) Excluding items affecting comparability

Consolidated capital employed by currency, SEKm

	2016	%	2015	%	2014	%
EUR	25,016	33	22,843	34	29,351	42
USD	14,419	19	7,124	11	7,192	10
CNY	13,402	18	14,140	21	12,905	18
MXN	4,309	6	4,591	7	4,975	7
GBP	4,306	6	4,332	6	4,832	7
Other	13,301	18	14,303	21	10,736	16
Total	**74,753**	**100**	**67,333**	**100**	**69,991**	**100**

Consolidated balance sheet

SEKm	2016	2015	2014	Jan 1, 2014
Intangible assets	26,918	22,763	23,555	21,775
Property, plant and equipment	47,494	42,402	43,599	39,909
Other non-current assets	3,878	3,084	5,214	5,135
Total non-current assets	**78,290**	**68,249**	**72,368**	**66,819**
Current assets	35,994	47,102	46,097	44,655
Total assets	**114,284**	**115,351**	**118,465**	**111,474**
Equity	39,580	48,275	44,925	42,431
Non-current liabilities	41,971	29,170	33,068	36,288
Current liabilities	32,733	37,906	40,472	32,755
Total equity and liabilities	**114,284**	**115,351**	**118,465**	**111,474**
Working capital	4,143	5,165	5,232	5,011
Capital employed	74,753	67,333	69,991	63,902
Net debt	35,173	19,058	25,066	21,471

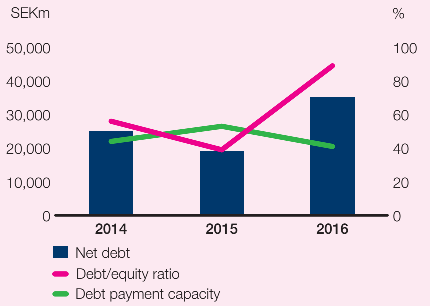
Transactions with shareholders

Specification of transactions with shareholders

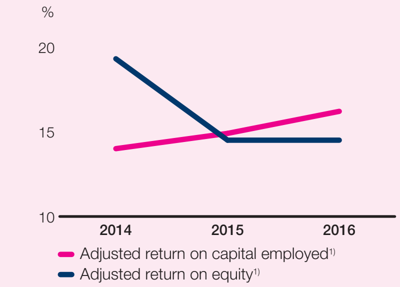
SEKm	2016	2015	2014
Dividend/Group contribution	–4,637	–3,443	–4,415
Contributions received	1,271	1,375	–
Tax effect	599	306	–291
Allocation of net debt to SCA's forest products operation[1]	–11,912	–	–
Total	**- 14,679**	**–1,762**	**–4,706**

1) For more information G4 Transactions with related parties.

Net debt, debt/equity ratio and debt payment capacity

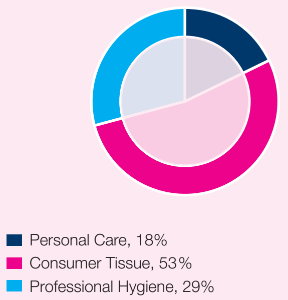


Adjusted return on capital employed and equity[1)]



1) Excluding items affecting comparability.

Capital employed, share of Group



F. GROUP STRUCTURE

F1. SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Subsidiaries
The companies over which the Essity Group has control are consolidated as subsidiaries. Control means that the Essity Group 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 the Essity Group has control over the companies. The Essity Group owns 54.6% of Vinda and 50% of Familia; the Essity Group also has control of these companies, despite the fact that there are significant non-controlling interests in the companies.

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 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, 2016. 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 2016.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2016	Share of equity at December 31, 2015	Share of equity at December 31, 2014
SCA Hygiene Products SAS	509 395 109	Saint-Ouen, France	100	100	100
SCA Hygiene Products Nederland B.V.	30-135 724	Zeist, Netherlands	100	100	100
SCA Hygiene Products (Fluff) Ltd.	577 116	Dunstable, UK	100	100	100
SCA Tissue North America LLC	58-2494137	Delaware, US	100	100	100
Vinda International Holdings Ltd[1)]	90235	Hong Kong, China	55	51	51
Wausau Paper Towel & Tissue LLC	41-2218501	Wisconsin, USA	100	–	–
SCA Hygiene Products Vertriebs GmbH	HRB 713 332	Mannheim, Germany	100	100	100
SCA Hygiene Products AB	556007-2356	Gothenburg, Sweden	100	100	100
SCA Hygiene Products S.L.	B28451383	Puigpelat, Spain	100	100	100
SCA Consumidor 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
SCA Hygiene Products SPA	3 318 780 966	Altopascio, Italy	100	100	100
SCA Hygiene Products Russia OOO	704 031 845	Moscow, Russia	100	100	100
SCA Hygiene Sp.z.o.o.	KRS No. 0000427360	Warsaw, Poland	100	100	100
SCA Hygiene Products GmbH	FN 49537 z	Vienna, Austria	100	100	100
SCA Hygiene Products SA-NV	BE0405.681.516	Stembert, Belgium	100	100	100
SCA Hygiene Products AFH Sales GmbH	HRB 710 878	Mannheim, Germany	100	100	100
SCA North America-Canada Inc.	421984	Ontario, Canada	100	100	100
OY SCA Hygiene Products AB	0165027-5	Espoo, Finland	100	100	100
SCA PERSONAL CARE INC.	23-3036384	Delaware, US	100	100	100
Productos Familia del Sancela Ecuador S.A.[1)]	1791314379001	Quito, Ecuador	50	50	50
SCA Hygiene Products AS	915 620 019	Oslo, Norway	100	100	100
SCA Hygiene Products AG	CHE-106.977.885	Schenkon, Switzerland	99	99	99
SCA Hygiene Products A/S	DK20 638 613	Allerød, Denmark	100	100	100
SCA Chile SA	94.282.000-3	Santiago de Chile, Chile	100	100	100
Sancella S.A.	B14441997	La Charguia, Tunisia	49	49	49
SCA Hygiene Products Kft	01-09-716945	Budapest, Hungary	100	100	100
Uni-Charm Mölnlycke KK	0104-01-046146	Tokyo, Japan	49	49	49
SCA Hygiene Products s.r.o.	485 36 466	Prague, Czech Republic	100	100	100
SCA Hygiene Spain, SL	B31235260	Allo, Spain	100	100	100
SCA Hygiene Products Slovakia s.r.o.	36590941	Gemerska Horska, Slovakia	100	100	100
SCA Hygiene Products GmbH Wiesbaden	HRB5301	Mainz-Kostheim, Germany	100	100	100
SCA Tissue France SAS	702055187	Bois-Colombes, France	100	100	100
SCA Hygiene Products GmbH Mannheim	HRB3248	Mannheim, Germany	100	100	100
SCA Hygiene Products GmbH Neuss	HRB 14343	Neuss, Germany	100	100	100
SCA Hygiene Products Sp.z.o.o.	KRS No. 0000086815	Olawa, Poland	100	100	100
SCA Hygiene Products Supply SAS	509599619	Roissy, Bobigny, France	100	100	100
SCA Hygiene Products Manchester Ltd	4119442	Dunstable, UK	100	100	100

1) The Essity Group has a small number of subsidiaries that are partly owned and hold significant non-controlling interests, see TF2:1.

F2. JOINTLY OWNED SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Vinda

Vinda is one of China's largest hygiene companies. The Essity Group 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, the Essity Group divested its hygiene business in China, Hong Kong and Macau for integration with Vinda. In 2016, the Essity Group'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 subsequently completed on April 1, 2016. Following this transaction and at the end of the period the Essity Group's holding amounted to 54.6%. In 2017, Vinda is expected to acquire a property via a private placement that is expected to dilute the Essity Group's holding to about 52.1%. Vinda's market capitalization on the Hong Kong stock exchange was SEK 19,329m (16,533; 11,551) at the end of the period.

Familia

Familia is 50% owned by the Essity Group and 49.8% owned by the Gomez family. The Essity Group is considered to have a controlling influence over Familia, despite the fact that the Essity Group does not hold a majority of shares in the company. The Essity Group 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 care products.

Financial information

Financial information is recognized below for both subsidiaries. Financial information has not been recognized for other subsidiaries since no other individual subsidiary had a material impact on the Group's earnings and position.

These balance sheets have been recognized taking into consideration the recognition of Vinda and Familia in the Essity Group'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	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Condensed income statement						
Net sales	13,297	10,463	7,024	6,075	6,186	5,650
Operating profit	1,038	736	500	733	783	719
Profit for the period	685	302	368	236	607	499
- Of which attributable to owners of the Parent	374	155	189	115	311	247
Other comprehensive income/loss for the period	–94	194	1,371	486	–684	41
- Of which attributable to owners of the Parent	–51	119	857	270	–412	27
Comprehensive income/loss for the period	**591**	**496**	**1,739**	**722**	**–77**	**540**
- Of which attributable to owners of the Parent	323	274	1,046	385	–101	274
- Of which attributable to non-controlling interests	268	222	693	337	24	266
Dividend to non-controlling interests	55	88	63	87	92	145
Condensed balance sheet						
Non-current assets	17,327	13,587	12,535	3,250	2,917	3,344
Current assets	5,669	4,623	4,320	2,825	2,494	2,453
Total	**22,996**	**18,210**	**16,855**	**6,075**	**5,411**	**5,797**
Equity attributable to owners of the Parent	7,573	5,895	5,715	2,398	2,089	2,259
Equity attributable to Non-controlling interests	4,503	3,570	3,437	1,764	1,510	1,583
Non-current liabilities	5,394	4,543	3,165	475	486	548
Current liabilities	5,526	4,202	4,538	1,438	1,326	1,407
Total	**22,996**	**18,210**	**16,855**	**6,075**	**5,411**	**5,797**
Cash flow from operating activities	2,439	810	739	569	440	767
Cash flow from investing activities	–1,129	–1,322	–2,092	–60	–135	–103
Cash flow from financing activities	583	171	1,384	–349	–249	–475
Cash flow for the period	**1,893**	**–341**	**31**	**160**	**56**	**189**

[1] For more information about the companies, refer to the list of major subsidiaries.

F3. JOINT VENTURES AND ASSOCIATES

AP ACCOUNTING PRINCIPLES

Joint arrangements

The Essity Group classifies its joint arrangements as joint ventures or joint operations, which are presented in further detail in Note F4.

Joint ventures

Joint ventures are defined as companies in which the Essity Group together with other parties through an agreement, 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 in profits is calculated on the basis of the Essity Group'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. The Essity Group'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 as a component of one line in the consolidated income statement "Share of profits of associates and joint ventures". Share in profits is calculated on the basis of the Essity Group's share of equity in the respective associate.

F3. JOINT VENTURES AND ASSOCIATES, CONT.

Carrying amounts of joint ventures and associates

SEKm	2016	2015	2014
Joint ventures			
Value, January 1	**114**	**122**	**836**
Investments	–	–	129
Net increase in joint ventures[1]	10	4	–164
Reclassification between joint ventures and associates	–	–8	–719
Translation differences	6	–4	40
Value, December 31	**130**	**114**	**122**
Associates			
Value, January 1	**927**	**925**	**127**
Investments	–	66	–
Company divestments	–40	–	–
Net increase in associates[1]	11	40	90
Impairment of associates	–	–62	–
Reclassification between associates and subsidiaries	–	–	–44
Reclassifications due to changes in the acquisition balance sheet	–	–	–11
Reclassification between joint ventures and associates	–	8	719
Translation differences	68	–50	44
Value, December 31	**966**	**927**	**925**
BS TF3:1 **Value, December 31, joint ventures and associates**	**1,096**	**1,041**	**1,047**

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 2m (11; 10) for joint ventures and SEK 147m (125; 16) 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, the Essity Group'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 the Essity Group did not participate. This caused the Essity Group's participation in Asaleo Care to increase to 34.7% during the fourth quarter of 2015. This program continued in 2016, resulting in the Essity Group's share in the company increasing to 35.9%. Asaleo Care manufactures and markets Consumer Tissue, Professional Hygiene and Personal care products. The Essity Group 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 the Essity Group's business.

TF3:1 **Material joint ventures and associates, 100% of operations**

	Joint ventures			Associates					
	Bunzl & Biach			Asaleo Care Ltd			Total		
SEKm	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Condensed income statement									
Net sales	955	852	776	3,851	3,946	3,890	4,806	4,798	4,666
Depreciation/amortization	–11	–11	–9	–185	–169	–154	–196	–180	–163
Operating profit	22	31	20	597	736	375	619	767	395
Interest income	–	–	–	2	3	–	2	3	–
Interest expenses	–	–	–	–67	–64	–153	–67	–64	–153
Other financial items	1	3	1	–2	–3	–208	–1	–	–207
Tax expense	–	–8	–6	–155	–193	5	–155	–201	–1
Profit for the period	23	26	16	375	479	18	398	505	34
Other comprehensive income/loss for the period	–	–1	–	31	–49	106	31	–50	106
Comprehensive income for the period	**23**	**25**	**16**	**406**	**430**	**124**	**429**	**455**	**140**
Condensed balance sheet									
Non-current assets	118	106	53	3,600	3,343	3,555	3,718	3,449	3,608
Cash and cash equivalents	15	10	55	199	214	226	214	224	281
Other current assets	120	93	98	1,269	1,159	1,161	1,389	1,252	1,259
Total assets	**253**	**209**	**206**	**5,068**	**4,716**	**4,942**	**5,321**	**4,925**	**5,148**
Non-current financial liabilities	60	50	48	2,121	1,792	1,723	2,181	1,842	1,771
Other non-current liabilities	46	47	46	252	181	78	298	228	124
Current financial liabilities	–	–	–	28	24	5	28	24	5
Other current liabilities	25	16	18	652	668	658	677	684	676
Total liabilities	**131**	**113**	**112**	**3,053**	**2,665**	**2,464**	**3,184**	**2,778**	**2,576**
Net assets	**122**	**96**	**94**	**2,015**	**2,051**	**2,478**	**2,137**	**2,147**	**2,572**
Group share of net assets	60	47	46	725	711	806	785	758	852
Fair value adjustment	58	56	66	178	119	43	236	175	109
Carrying amount of the companies	**118**	**103**	**112**	**903**	**830**	**849**	**1,021**	**933**	**961**
Carrying amount of other joint ventures							12	11	10
Carrying amount of other associates							63	97	76
BS TF3:2 **Carrying amount of joint ventures and associates**							**1,096**	**1,041**	**1,047**
Market value, December 31				**5,296**	**5,495**	**6,402**			

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, 2016, %	Share of equity at December 31, 2015, %	Share of equity at December 31, 2014, %	Carrying amount December 31, 2016, SEK m	Carrying amount December 31, 2015, SEK m	Carrying amount December 31, 2014, SEK m
Joint ventures								
Bunzl & Biach GmbH	FN79555v	Vienna, Austria	49	49	49	118	103	112
Other						12	11	10
Associates								
Asaleo Care Ltd	61 154 461 300	Melbourne, Australia	36	35	33	903	830	849
Other						63	97	76
BS TF3:1 **Carrying amount, December 31**						**1,096**	**1,041**	**1,047**

F4. JOINT OPERATIONS

AP ACCOUNTING PRINCIPLES

Joint operations are defined as companies in which the Essity Group 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. The Essity Group recognizes its proportional share of the company's assets, liabilities, income and expenses in its financial statements. A small number of companies in the Essity Group 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, 2016	Share of equity at December 31, 2015	Share of equity at December 31, 2014
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

The Essity Group has an agreement with two other stakeholders as a joint so-called mankala company in the Finnish energy market, where the joint parties produces 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	2016	2015	2014
Value, January 1	**33**	**40**	**40**
Divestments	–1	–7	–
Other reclassifications	–	–	–
Translation differences	–	–	–
BS **Value, December 31**	**32**	**33**	**40**

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 DISPOSALS

AP ACCOUNTING PRINCIPLES

Acquisition of subsidiaries

The Essity Group applies IFRS 3 Business Combinations in connection with acquisitions. In business combinations, acquired assets and assumed liabilities are identified and classified at fair value on the date of acquisition (also known as an acquisition analysis). The acquisition analysis also includes an assessment of whether there are any assets that are intangible in nature, such as trademarks, patents, customer contracts or similar assets that were not recognized in the acquired unit. If the cost is higher than the net value of the acquired assets, assumed liabilities and identified intangible assets in the company, 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 contracts 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 for the period.

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 in which a controlling influence is achieved that do not lead to loss of control 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 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.

Effect on sales and earnings 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 36m 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.

Acquisitions in 2015

With the exception of the acquisition of Nampak, which is described in more detail below, Essity Group made only minor supplementary investments in 2015 and made earn-out payments for previously acquired companies. In July, the Essity Group 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. The Essity Group 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 1.4m.

Effect on sales and earnings of acquisitions for the period

No new acquisitions were carried out during the period.

Acquisitions in 2014

In 2014, the Essity Group conducted a number of minor acquisitions, which were jointly recognized in the acquisition balance sheet for 2014, since no individual transaction was of a material nature. Acquisitions made during the year totaled SEK 508m, including assumed net debt.

On August 1, the Essity Group's subsidiary Vinda acquired an additional 50% in the associate Vinda Personal Care for HKD 295m. Earlier holdings in Vinda Personal Care have been restated in accordance with IFRS and had a positive remeasurement effect of SEK 33m.

In June 2014, the Essity Group acquired the remaining 50% of the joint venture Fine Sancella in Jordan from Nuqul Group. The consideration transferred amounted to SEK 171m. Following amendments to the IFRS governing consolidated financial statements and joint arrangements (IFRS 10 and IFRS 11), Fine Sancella has been consolidated as a subsidiary since the Essity Group is deemed to have control. Accordingly, the acquisition has been recognized as an equity transaction, which means that no acquisition balance sheet has been prepared.

Of acquisitions for the year totaling SEK 508m, SEK 488m was paid in cash, including assumed cash and cash equivalents, and the remaining SEK 20m comprises assumed net debt. Acquisition costs of approximately SEK 25m relating to acquisitions during the year are included in operating profit.

Effect on sales and earnings of acquisitions for the period

Since the acquisition date, acquisitions have had an impact of SEK 210m on consolidated net sales and an impact of SEK 2m on profit after tax for the period. Had other acquisitions been consolidated as of January 1, 2014, the acquired net sales would have amounted to SEK 401m and profit after tax to SEK 7m.

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.

F6. ACQUISITIONS AND DISPOSALS, CONT.

Acquisition balance sheets

SEKm	2016	2015	2014
Intangible assets	213	–	23
Property, plant and equipment	2,896	–	56
Other non-current assets	–	66	166
Operating assets	672	–	45
Cash and cash equivalents	14	–	15
Provisions and other non-current liabilities	–71	–	–5
Net debt excl. cash and cash equivalents	–2,124	–	–20
Operating liabilities	–528	–	–17
Fair value of net assets	**1,072**	**66**	**263**
Goodwill	3,375	–	282
Consolidated value of share in associates	–	–	–72
Revaluation of previously owned shares	–	–	–35
Consideration transferred	**4,447**	**66**	**438**
Consideration transferred	–4,447	–66	–438
Earn-out payment	19	–	–
Settled debt pertaining to acquisitions in earlier years	–2	–6	–
Cash and cash equivalents in acquired companies	14	–	15
Adjustment of cash and cash equivalents in final acquisition analysis for Vinda	–	–	–69
CF Effect on Group's cash and cash equivalents, acquisition of operations	**–4,416**	**–72**	**–492**
Acquisition of non-controlling interests	–	–19	–173
Acquired net debt excl. cash and cash equivalents	–2,124	–	–20
Adjustment of net debt in final acquisition analysis for Vinda	–	–	193
OCF Acquisition of operations during the period, including net debt assumed	**–6,540**	**–91**	**–492**

Specification of acquisition balance sheet 2016

SEKm	Wausau	Other	Total
Intangible assets	213	–	213
Property, plant and equipment	2,896	–	2,896
Other non-current assets	–	–	0
Operating assets	672	–	672
Cash and cash equivalents	14	–	14
Provisions and other non-current liabilities	–71	–	–71
Net debt excl. cash and cash equivalents	–2,127	3	–2,124
Operating liabilities	–525	–3	–528
Fair value of net assets	**1,072**	**0**	**1,072**
Goodwill	3,329	46	3,375
Consideration transferred	**4,401**	**46**	**4,447**
Consideration transferred	–4,401	–46	–4,447
Earn-out payment	–	19	19
Settled debt pertaining to acquisitions in earlier years	–	–2	–2
Cash and cash equivalents in acquired companies	14	–	14
CF Effect on Group's cash and cash equivalents, acquisition of operations	**–4,387**	**–29**	**–4,416**
Acquired net debt excl. cash and cash equivalents	–2,127	3	–2,124
OCF Acquisition of operations during the period, including net debt assumed	**–6,514**	**–26**	**–6,540**

Adjustment of preliminary acquisition balance sheets for 2016

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, but not later than one year from the time of acquisition the acquisition balance sheet is confirmed. Adjustments to acquisition analyses result in changes to the income statement and balance sheet for the comparative period. The preliminary acquisition analysis for Wausau was adjusted compared with the first quarter as a result of further information being obtained regarding the market value and new calculations were made relating to intangible assets. The other acquisition analyses prepared in the preceding year were confirmed in accordance with the preliminary acquisition analyses.

Acquisitions after the end of the reporting period

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 wound care, compression therapy and orthopedics. The purchase price for the shares was EUR 1,400m, and takeover of net debt amounted to approximately EUR 1,340m. The acquisition is fully debt-funded. The transaction, which was subject to customary regulatory approvals, was closed on April 3, 2017.

A preliminary purchase price allocation is presented below. The preliminary purchase price allocation is based on the first-quarter report that Essity has received from BSN. Essity did not have access to any more detailed information regarding the items included in the opening balances since the acquisition was implemented on April 3. This means that fair value adjustments and calculations of intangible assets have not yet been performed, and goodwill has thus only been preliminarily calculated.

BSN medical's reported net sales for 2016 amounted to EUR 850m (SEK 8,038m), adjusted EBITDA to EUR 210m (SEK 1,986m) and adjusted EBITA to EUR 197m (SEK 1,863m).

Specification of acquisition balance sheet 2017

SEKm	BSN
Intangible assets	9,995
Non-current assets	1,447
Operating assets	3,121
Cash and cash equivalents	497
Provisions and other non-current liabilities	–2,684
Net debt excl. cash and cash equivalents	–13,184
Operating liabilities	–1,392
Fair value of net assets	**–2,200**
Goodwill	15,474
Non-controlling interests	86
Consideration transferred	**13,359**
Consideration transferred	–13,359
Cash and cash equivalents in acquired companies	497
CF Effect on Group's cash and cash equivalents, acquisition of operations	**–12,863**
Acquired net debt excl. cash and cash equivalents	–13,184
OCF Acquisition of operations, including net debt assumed	**–26,047**

Divestments

In June, the 33.3% holding in the recycling company IL Recycling was divested, of which the Essity Group and SCA's forest products operation each owned 16.65%. The purchase consideration in the Essity Group amounted to SEK 120m and the capital gain to SEK 99m. In November, the remaining non-current assets in China not included in the hygiene business transferred to Vinda in 2014 were divested. The purchase consideration amounted to SEK 169m and resulted in a capital gain of SEK 40m excluding divestment costs and the reversal of accumulated exchange rate differences in the divested operation previously recognized in equity. Including divestment costs and the reversal of accumulated exchange rate differences, the outcome was SEK –26m. In addition to these divestments, payment was received for a number of minor divestments in China and Sweden, with the total purchase consideration for these amounting to SEK 29m and the capital gain to SEK 26m.

All capital gains were recognized in items affecting comparability in profit or loss. In addition, final settlement totaling SEK 59m was received relating to the earn-out payment for the Baby Care operation in South Africa, which was divested in 2015.

Assets and liabilities included in divestments

SEKm	2016	2015	2014
Property, plant and equipment	–10	48	–
Other non-current assets	43	–	–
Operating assets	3	68	–
Non-current assets held for sale	124	–	–
Cash and cash equivalents	8	–	–
Operating liabilities	–15	–	–
Gain/loss on sale[1]	165	–	–
Compensation received	**318**	**116**	**–**
Less:			
Unpaid purchase consideration	–	–67	–
Cash and cash equivalents in divested companies	–8	–	–
Add:			
Payment of receivable for purchase consideration	59	–	205
CF Effect on Group's cash and cash equivalents, divestments	**369**	**49**	**205**
Less:			
Divested net debt excl. cash and cash equivalents	–	–	–
OCF Divestment of operations during the period, including net debt transferred	**369**	**49**	**205**

[1] Excluding reversal of realized translation differences in divested companies to profit or loss. Gain/loss on sale 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. The gain 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	2016	2015	2014
Buildings	59	53	15
Land	31	67	43
Machinery and equipment	66	–	1
Construction in progress	–	–	1
BS **Total**	**156**	**120**	**60**

In 2016, non-current assets held for sale are attributable to the closure of a tissue production plant in Spain in the amount of SEK 59m and the discontinuation of the hygiene operation in India in the amount of SEK 97m.

G2. LEASING

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 the Essity Group, 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 term.

Leasing expenses

SEKm	2016	2015	2014
Operating leases	–696	–681	–655
Finance leases, depreciation/amortization	–2	–5	–7
Finance leases, interest expense	0	–2	–2
Total	**–698**	**–688**	**–664**

Operating leases, future minimum lease payments

SEKm	2016	2015	2014
Within 1 year	515	485	483
Between 1 and 5 years	1,209	933	975
Later than 5 years	1,392	545	631
Total	**3,116**	**1,963**	**2,089**

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 reality, it is possible to terminate contracts early.

Finance leases, future minimum lease payments

SEKm	2016	2015	2014
Within 1 year	1	6	39
Between 1 and 5 years	1	12	3
Later than 5 years	–	35	–
Total	**2**	**53**	**42**
Of which, interest	0	–18	–1
Present value of future minimum lease payments	**2**	**35**	**41**

Other disclosures

In 2016, a rental contract for a distribution center was terminated. In conjunction with this, the distribution center was acquired for SEK 29m. Total payments for finance leases during the period amounted to SEK –31m (–9; –13), of which amortization of debt accounted for SEK –31m (–7; –11). The carrying amount of finance lease assets at year-end amounted to SEK 0m (29; 36) relating to buildings/land and SEK 5m (3; 5) relating to machinery.

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	2016	2015	2014
Guarantees for			
associates	8	9	12
customers and others	39	38	35
Tax disputes	–	1,302	1,554
Other contingent liabilities	214	243	248
Total	**261**	**1,592**	**1,849**

Other contingent liabilities above relates to recovery fees/taxes for packing material in France where the requirement is subject to judicial review.

For the 2015 and 2014 periods, the following contingent liabilities were recognized

Contingent liabilities for tax mainly relate to one tax dispute in Sweden where the Tax Agency has decided on additional taxes and tax surcharges for the years 2008 to 2012 of approximately SEK 1,188m, including interest. The dispute pertains to interest expenses on loans in a Group company that arose in connection with the move of operations to Sweden in 2004.

The Essity Group's assessment is that the tax claim will not be upheld in court. Consequently, no provision has been made in the accounts for this claim.

The Essity Group is under examination by the competition autho- rities in certain countries. The Essity Group assesses that the ongoing inquiries will not have a material financial impact.

Pledged assets

			Total		
SEKm	**Pledged assets related to financial liabilities**	**Other**	**2016**	**2015**	**2014**
Real estate mortgages	7	–	7	7	6
Chattel mortgages	35	20	55	52	56
Other	–	130	130	134	138
Total	**42**	**150**	**192**	**193**	**200**

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

G4. TRANSACTIONS WITH RELATED PARTIES

The Essity Group has had a number of transactions with both units in Forest Products and the Parent Company SCA AB. These transactions and dealings are outlined in the table below for all fiscal years. Pricing between units has adhered to the transfer pricing policy that applies at the SCA Group. In relation to renumeration of senior executives, refer to Note C3 and to disclosures regarding associates, joint ventures and joint operations in Notes F3 and F4.

Purchases from Forest Products during the fiscal years relate primarily to pulp used in the Essity Group's manufacturing process. Other income relates to management fees that are invoiced to Forest Products for such items as management functions and which have been allocated to the Hygiene Group in connection with the preparation of the combined financial statements. The financial income is attribute to the internal bank's lending to Forest Products.

The most significant dealing during the presented fiscal years relates to the lending that Essity has conducted via the internal bank to Forest products which is classified as current financial receivables, Group companies. In conjunction with Essity Aktiebolag's acquisition of the hygiene products operations in December 2016 and net debt is preliminary allocated between the lines of business, this receivable related to Forest Products is reduced. This is reflected as a transaction with owners that was recognized in equity in 2016, which explains the large change between the years. Other transactions with owners via equity that were carried out during the fiscal years are presented in Note E9. Other dealings primarily concern internal derivative positions and working capital items.

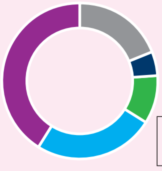
In conjunction with the transfer outlined above, Essity Aktiebolag is also assuming the majority of the external financing that exists in the SCA Group. In connection with this, a Parent Company guarantee is also issued from SCA AB for the benefit of Essity Aktiebolag as security for these debt instruments.

Transactions and dealings with Group companies

SEKm	2016	2015	2014
Sales	–	–	–
Purchases	511	482	424
Other income	56	57	14
Financial income	108	132	230
Financial expenses	–2	–2	–7
Non-current receivables, Group companies	–	39	11
Non-current financial receivables, Group companies	3	3	3
Current receivables, Group companies	57	166	117
Of which, trade receivables	18	79	39
Of which, currency derivatives	33	10	30
Of which, energy derivatives	6	77	48
Current financial receivables, Group companies	1,433	12,207	12,764
Non-current liabilities, Group companies	48	–	4
Of which, currency derivatives	12	–	3
Of which, energy derivatives	36	–	1
Non-current financial liabilities, Group companies	–	–	–
Current liabilities, Group companies	259	341	273
Of which, trade payables	100	106	88
Of which, currency derivatives	64	29	1
Of which, energy derivatives	58	3	1
Of which, other current liabilities	37	203	183
Current financial liabilities, Group companies	485	852	1,797

G5. DESCRIPTION OF COSTS

Essity Group

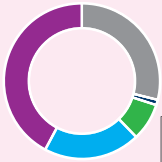


Total operating expenses[1]: SEK 89,562m

- Sales, general and administration[2], 19%
- Energy, 5%
- Transport and distribution expenses, 10%
- Other costs of goods sold[3], 25%
- Raw materials and consumables, 41%

Of which	
Pulp	16%
Recovered paper	4%
Timber/chips	1%
Super absorbents[4]	2%
Non-woven	3%
Other[5]	15%
Total raw materials and consumables	**41%**

Personal Care

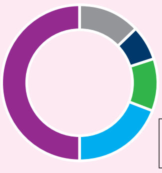


Total operating expenses[1]: SEK 29,450m

- Sales, general and administration, 29%
- Energy, 1%
- Transport and distribution expenses, 8%
- Other costs of goods sold, 20%
- Raw materials and consumables, 42%

Of which	
Pulp	10%
Super absorbents[4]	6%
Non-woven	8%
Other	18%
Total raw materials and consumables	**42%**

Consumer Tissue

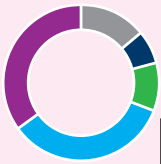


Total operating expenses[1]: SEK 37,246m

- Sales, general and administration, 13%
- Energy, 7%
- Transport and distribution expenses, 11%
- Other costs of goods sold, 19%
- Raw materials and consumables, 50%

Of which	
Pulp	27%
Recovered paper	4%
Other	19%
Total raw materials and consumables	**50%**

Professional Hygiene



Total operating expenses[1]: SEK 22,268m

- Sales, general and administration, 14%
- Energy, 7%
- Transport and distribution expenses, 10%
- Other costs of goods sold, 34%
- Raw materials and consumables, 35%

Of which	
Pulp	6%
Recovered paper	12%
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 in Other costs of goods sold comprise personnel (11 percentage points) and depreciation/amortization (5 percentage points).
[4] Collective name of a number of synthetic absorbent materials based on polymers. Important material in personal care products such as diapers and pads.
[5] The item Other in Raw materials and consumables includes costs for chemicals, packaging material and plastic material.

G6. EVENTS AFTER THE REPORTING PERIOD

On January 26, 2017, it was announced that the Essity Group is investing in a through-air drying (TAD) machine at its tissue plant in Skelmersdale in order to meet the growing demand for high-quality tissue and strengthen the product offering in the UK. It was also decided to close an older tissue machine in Stubbins and an agreement was signed to divest the tissue plant in Chesterfield to Sidcot Group Limited. These measures are part of the Essity Group's Tissue Roadmap and are aligned with the company's strategy to streamline production and secure capacity for future growth in order to increase value creation in the Tissue business area. Both initiatives are subject to customary consultation with employee representatives. Following the investment in the tissue plant in Skelmersdale of approximately SEK 160m, production capacity for TAD mother reels will amount to 28,000 tons. The cost for closing the older tissue machine in Stubbins, with an annual production capacity of 20,000 tons, is expected to amount to approximately SEK 120m and will be recognized as an item affecting comparability, most of which in the first quarter of 2017. Of these costs, approximately SEK 70m is expected to affect cash flow. Sidcot Group Limited will pay a consideration of approximately GBP 3m (about SEK 35m) for the production facility in Chesterfield. The facility produces mother reels but has no converting capacity. The Essity Group will have no internal need for the type of mother reels produced at the plant. The annual production capacity is 31,000 tons. An impairment loss of about SEK 10m is recognized as an item affecting comparability in the fourth quarter of 2016. Closing of the transaction is expected in the first quarter of 2017.

On March 15, 2017, SCA announced that Essity Aktiebolag (publ), under its Euro Medium Team Note (EMTN) program, had raised EUR 2bn at an average interest rate of 0,98% and an average tenor of 6,35 years. The purpose of the transaction was to finance the acquisition of BSN medical.

On April 3, 2017, SCA announced that the company's acquisition of BSN medical, a leading medical solutions company, had been closed. BSN medical develops, manufactures and sells products within wound care, compression therapy and othopedics. The purchase price for the shares amounted to EUR 1,400m and takeover of net debt to approximately EUR 1,340m.

For more information se F6 Acquisitions and disposals.

At the Annual General Meeting for SCA AB on April 5, 2017, it was decided that all shares in the wholly owned subsidiary Essity Aktiebolag will be distributed.

At the Annual General Meeting for Essity Aktiebolag on April 5, 2017, it was decided that the company will not pay any dividend.

G7. AUDITOR'S REPORTS

To the Board of Directors of Essity Aktiebolag (publ), reg.no 556325-5511

AUDITOR'S REPORT ON FINANCIAL STATEMENTS OF HISTORICAL FINANCIAL INFORMATION

We have audited the financial statements for Essity Aktiebolag (publ) on pages F-31–F-83, which comprise the group balance sheet position as of December 31, 2016 and the statements of income, comprehensive income, cash flows and changes in equity for this year, and a summary of significant accounting policies and other explanatory notes.

The Board of Directors' responsibility for the financial statements

The Board of Directors and the CEO are responsible for the preparation and the fair presentation of the financial position, financial performance, statement of changes in equity and cash flows in accordance with International Financial Reporting Standards as adopted by the EU and additional applicable framework. This responsibility includes designing, implementing and maintaining internal control relevant to preparing and appropriately presenting financial statements that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the preparation and fair presentation of the financial statements in accordance with the requirements in the Commission Regulation (EC) No 809/2004.

The auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with FAR's Recommendation RevR 5 Examination of Financial Information in Prospectuses. This recommendation requires that we comply with ethical requirements and have planned and performed the audit to obtain reasonable assurance that the financial statements are free from material misstatements. 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 in relationship to Essity Aktiebolag (publ) according to rules of professional ethics in Sweden and has otherwise fulfilled out ethical responsibilities under these requirements.

An audit in accordance with FAR's Recommendation RevR 5 Examination of Financial Information in Prospectuses involves performing procedures to obtain audit evidence corroborating the amounts and disclosures in the financial statements. The audit procedures selected are based on our assessment of the risks of material misstatements in the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the company's preparation and fair presentation of the financial statements as a basis for designing audit procedures that are applicable under those circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also involves evaluating the accounting policies applied and the reasonableness of the significant accounting estimates made by the Board of Directors and the Managing Director and evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional applicable framework, of the financial position of Essity Aktiebolag (publ) as of December 31, 2016 and its financial performance, statement of changes in equity and cash flow for the year.

Stockholm, June 4, 2017

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

To the Board of Directors of Essity Aktiebolag (publ) (556325-5511)

THE AUDITOR'S REPORT ON HISTORICAL FINANCIAL STATEMENTS

We have audited the financial statements for Essity Aktiebolag (publ) on pages F-31–F-83, which comprise the balance sheet as of 31 December 2015, 31 December 2014 and 1 January 2014 and the income statement, cash flow statement and statement of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory notes.

The Board of Directors' and the Managing Director's responsibility for the financial statements

The Board of Directors and the Managing Director are responsible for the preparation and the fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and the Annual Accounts Act and additional applicable framework. This responsibility includes designing, implementing and maintaining internal control relevant to preparing and appropriately presenting financial statements that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the preparation and fair presentation in accordance with the requirements in the Commission Regulation (EC) No 809/2004.

The auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with FAR's Recommendation RevR 5 Examination of Prospectuses. This recommendation requires that we comply with FAR's ethical requirements and have planned and performed the audit to obtain reasonable assurance that the financial statements are free from material misstatements. 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 the Essity Aktiebolag (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

An audit in accordance with FAR's Recommendation RevR 5 Examination of Prospectuses involves performing procedures to obtain audit evidence corroborating the amounts and disclosures in the financial statements. The audit procedures selected depend on my (our) assessment of the risks of material misstatements in the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation and fair presentation of the financial statements as a basis for designing audit procedures that are applicable under those circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also involves evaluating the accounting policies applied and the reasonableness of the significant accounting estimates made by the Board of Directors and the Managing Director and evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU/Annual Accounts Act and additional applicable framework of the financial position of Essity Aktiebolag (publ) as of 31 December 2015, 31 December 2014 and 1 January 2014 and its financial performance, statement of changes in equity and cash flows for these years.

Stockholm June 4, 2017

PricewaterhouseCoopers AB

Mikael Eriksson
Authorized Public Accountant

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