

Operations and structure

Essity divides and reports its operations according to three business areas – Personal Care, Consumer Tissue and Professional Hygiene. Personal Care includes the Incontinence Products, Baby Care, Medical Solutions and Feminine Care product segments. Consumer Tissue includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Professional Hygiene includes complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, Internet of Things sensor technology as well as service and maintenance.

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

Organization

Essity has the following four business units:

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

- Latin America, which offers consumer tissue, baby care, incontinence products, medical solutions, feminine care and professional hygiene in Latin America.
- Professional Hygiene, which offers professional hygiene in Europe and North America.

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

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

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

master data, and office-related support and service to all units within Essity.

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

Events during the year

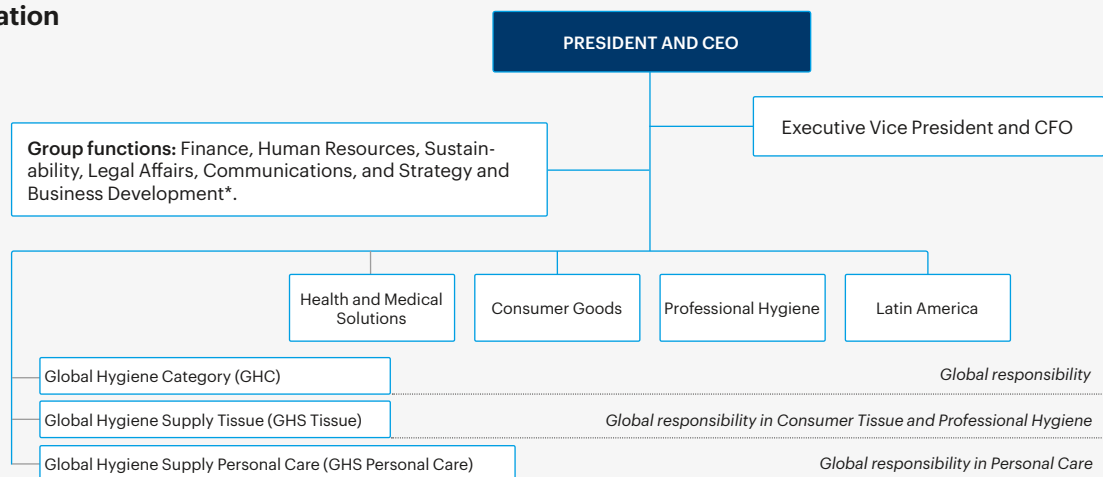
On April 3, 2017, the Group closed the acquisition of BSN medical, a leading medical solutions company. BSN medical develops, manufactures and sells products within wound care, compression therapy and orthopedics. The purchase price for the shares amounts to EUR 1,394m, and takeover of net debt to EUR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

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

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

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

Organization



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

Acquisitions, investments and divestments



Acquisition of BSN medical

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

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

BSN medical is included in the Personal Care business area.

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

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

Capital expenditures

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

line production and secure capacity for future growth.

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

Furthermore, to strengthen its baby care product offering in Europe, Essity has also decided to invest about EUR

40m (approximately SEK 380m) in facilities in Europe.

Divestments

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

Other Group information

Parent Company

The Group's Parent Company, Essity Aktiebolag (publ), is a holding company with the main task of owning and managing shares in a number of subsidiaries and performing Group-wide management and administrative functions. The company's corporate registration number is 556325-5511, and the address is: Box 200, SE-101 23 Stockholm, Sweden. In 2017, the Parent Company recognized operating income of SEK 367m (–) and profit before appropriations and tax of SEK 1,681m (–244). The Parent Company was dormant for much of 2016. Capital expenditures totaled SEK 0m (7) during the year. Cash and cash equivalents at year-end amounted to SEK 0m (0).

Research and development (R&D)

Research and development (R&D) costs during the year amounted to SEK 1,239m (1,211), corresponding to about 1.1% of consolidated net sales. R&D is coordinated and conducted from a global perspective. Product development is carried out in close cooperation with the local units, as well as through direct collaboration with customers.

Holdings of treasury shares

Essity Aktiebolag (publ) holds no treasury shares.

Share distribution

Between the listing on June 15, 2017 and December 31, 2017, 453,501 Class A shares were converted into Class B shares. The proportion of Class A shares was 9.1% at year-end.

Dividend

The Board of Directors proposes a dividend of SEK 5.75 per share or SEK 4,038m. The record date for entitlement to receive dividends is proposed as April 16, 2018.

Environmental impact in Sweden

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

Sustainability report

Essity's statutory sustainability report, in accordance with the requirements of the Swedish Annual Accounts Act, is found on pages 66–83 and 149–156 in the Board of Directors' Report. This sustainability report for Essity Aktiebolag (publ) encompasses the entire Group. More information on non-financial accounting principles can be found in Note H1, page 149.

Guidelines for remuneration of senior executives

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

"Remuneration of senior executives will be a fixed salary, variable remuneration, additional benefits and pension. Senior executives include the President, the Executive Vice President, Business Unit Presidents and equivalents, and the Central Staff Managers. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession and linked to the manager's responsibility and authority. Variable remuneration is to be limited and linked to the fixed remuneration, based on performance results in relation to annual and long term established targets. In the event of termination of employment, the notice period should normally be up to two years if termination is initiated by the company, and up to one year, when ini-

tiated by the senior executive. There will be no severance pay. Pension benefits should, wherever possible, only include defined premium pension benefits and entitle the executive to receive a pension from the age of 65. Variable remuneration is not pensionable income. The Board of Directors has the right to depart from the established guidelines if there is an individual case with special grounds. The guidelines do not take precedence over compulsory conditions in accordance with labor legislation or collective agreements. Furthermore, they are not applicable to existing contracts."

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

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

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

Sales and earnings

Net sales

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

Earnings

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

Items affecting comparability amounted to SEK -940m (-2,825) and include costs of approximately SEK -550m attributable to the split of SCA into two listed companies, which is mainly related to foreign tax of a non-recurring nature on non-current assets outside Sweden. Furthermore, the amount includes restructuring costs of about SEK -75m for the closure of a

tissue machine in the UK, and approximately SEK -255m for the closure of a tissue production plant in the US. Items affecting comparability also include integration costs and transaction costs related to the acquisition of BSN medical and inventory valuation in connection with the acquisition balance totaling approximately SEK -435m. A release of a provision relating to a competition case in Poland had a positive impact of about SEK 265m. Other revenue impacted items affecting comparability positively by about SEK 110m.

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

Adjusted profit before tax¹⁾ rose 6% (declined 5% excluding currency translation effects and acquisitions) to SEK 11,663m (10,998).

The tax expense, excluding effects of items affecting comparability, was SEK 2,191m (4,355). The decrease is primarily related to the tax provision of approximately SEK 1.3bn made in the

first six months of 2016. The tax reform in the US entailed a positive non-recurring tax effect of SEK 550m for the fourth quarter and the full year of 2017.

Adjusted profit for the period¹⁾ rose 43% (32% excluding currency translation effects and acquisitions) to SEK 9,472m (6,643).

Profit for the period rose 107% (96% excluding currency translation effects and acquisitions) to SEK 8,785m (4,242). Earnings per share were SEK 11.56 (5.41³⁾). Adjusted earnings per share²⁾ were SEK 13.09 (8.99³⁾).

Key figures

The Group's adjusted gross margin¹⁾ amounted to 29.6% (28.4) and the adjusted EBITA margin¹⁾ was 12.3% (11.8). Adjusted return on capital employed¹⁾ was 14.9% (16.4). Adjusted return on equity¹⁾ was 21.3% (14.5). The interest coverage ratio was 10.1 (10.8).

¹⁾ Excluding items affecting comparability.

²⁾ Excluding items affecting comparability and amortization of acquisition-related intangible assets.

³⁾ Indicative earnings per share on the assumption that the number of issued shares in Essity as of December 31, 2016 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).

Summary income statement

SEKm	2017	2016	2015
Net sales	109,265	101,238	98,519
Adjusted EBITA¹⁾	13,405	11,992	10,603
EBITA	12,550	9,347	10,311
Adjusted operating profit¹⁾	12,845	11,833	10,470
Items affecting comparability ²⁾	-940	-2,825	-786
Operating profit	11,905	9,008	9,684
Financial items ³⁾	-1,182	-835	-828
Profit before tax	10,723	8,173	8,856
Adjusted profit before tax¹⁾	11,663	10,998	9,642
Tax ⁴⁾	-1,938	-3,931	-2,278
Profit for the period	8,785	4,242	6,578

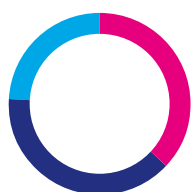
¹⁾ Excluding items affecting comparability.

²⁾ Includes the sale of securities, SEK 970m for 2015.

³⁾ Excludes the sale of securities, SEK 970m for 2015.

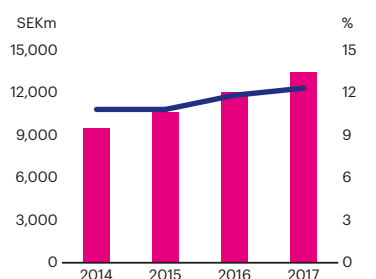
⁴⁾ Including provision of approximately SEK +550m for 2017, approximately SEK -1,300m for 2016 and approximately SEK -300m for 2015.

Net sales, share of Group



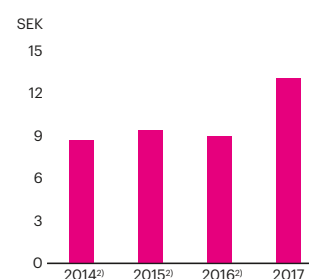
■ Personal Care, 37%
■ Consumer Tissue, 39%
■ Professional Hygiene, 24%

Adjusted EBITA¹⁾ and adjusted EBITA margin¹⁾



■ Adjusted EBITA¹⁾ — Adjusted EBITA margin¹⁾
¹⁾ Excluding items affecting comparability.

Adjusted earnings per share¹⁾



¹⁾ Excluding items affecting comparability and amortization of acquisition-related intangible assets.

²⁾ Indicative earnings per share on the assumption that the number of issued shares in Essity as of December 31, 2016, 2015 and 2014 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).

Operating cash flow

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

Financial items increased SEK 347m to SEK -1,182m (-835). The increase is primarily due to higher average net debt. Lower interest had a positive impact

on financial items during the period. Income tax payments totaled SEK 2,971m (3,782). Cash flow from current operations amounted to SEK 8,745m (8,563).

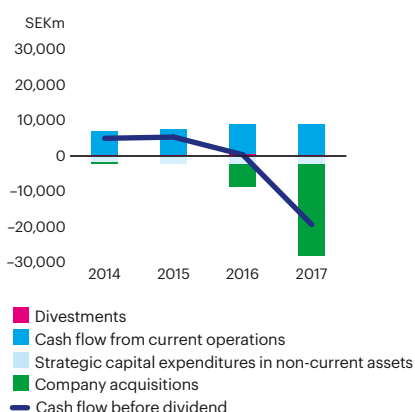
Strategic capital expenditures amounted to SEK -2,101m (-2,033). The net sum of acquisitions and divestments was SEK -26,016m (-6,171). Net cash flow totaled SEK -18,791m (-13,967).

Net debt increased by SEK 17,294m during the year to SEK 52,467m at year-end. Excluding pension liabilities, net debt amounted to SEK 49,074m. Net cash flow increased net debt by SEK

18,791m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair measurement of financial instruments, reduced net debt by SEK 1,061m. Exchange rate movements reduced net debt by SEK 436m.

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

The Group's cash flow



Summary operating cash flow statement

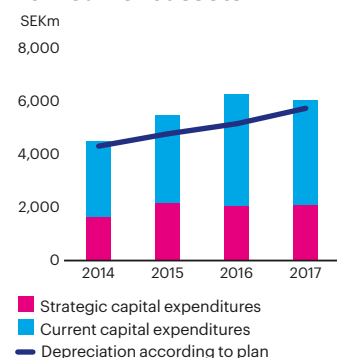
SEKm	2017	2016	2015
Operating cash surplus	18,465	16,759	15,051
Change in working capital	-740	1,596	-517
Current capital expenditures, net	-3,911	-4,222	-3,293
Restructuring costs, etc.	-1,091	-1,102	-801
Operating cash flow	12,723	13,031	10,440
Financial items	-1,182	-835	-828
Income taxes paid, etc.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

Operating cash flow, share of Group

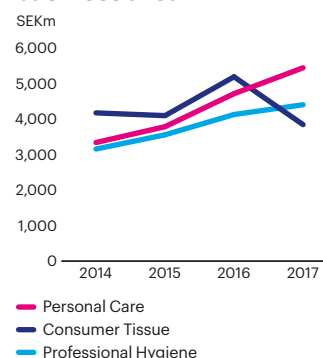


Personal Care, 40%
 Consumer Tissue, 28%
 Professional Hygiene, 32%

Capital expenditures in non-current assets



Operating cash flow by business area



Financial position

Assets and capital employed

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

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

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

Equity

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

Financing

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

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

Key figures

The debt/equity ratio was 1.06 (0.89). Excluding pension liabilities, the debt/equity ratio was 0.99 (0.76). The visible equity/assets ratio was 29% (29). Adjusted return on capital employed¹⁾ and equity¹⁾ was 14.9% (16.4) and 21.3% (14.5) respectively. The capital turnover rate was 1.21 (1.38). At year-end, working capital amounted to 5% (4) of net sales.

¹⁾ Excluding items affecting comparability.

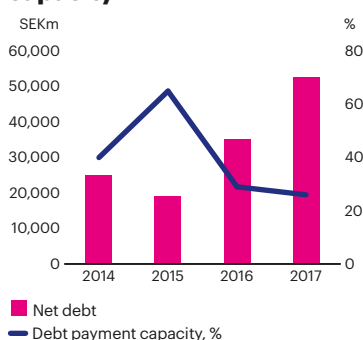
Consolidated capital employed by currency, SEKm

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

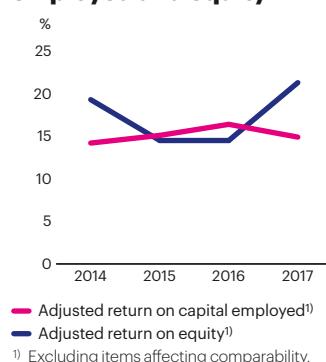
Consolidated balance sheet

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

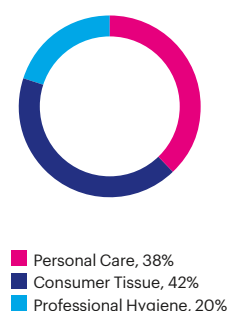
Net debt and debt payment capacity



Adjusted return on capital employed and equity¹⁾



Capital employed, share of Group



Risks and risk management

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

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

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

Essity's structure and value chain

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

Essity conducts operations in hygiene and health, with sales through a variety

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

Processes for risk management

Essity's Board of Directors determines the Group's strategic direction based on recommendations from the Executive Management Team. The responsibility for long-term and overall management of strategic risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to the Business Unit Presidents. This implies that most operational risks are managed by Essity's business units at a local level, but are coordinated when deemed relevant. The tools for this work primarily comprise continuous reporting by the business units and the

annual strategy process, which includes risk assessment and risk management as part of the process. Identified risks have been classified according to the likelihood of the risk becoming a reality and the impact it can have on Essity's target fulfillment. The standardized model also includes how risks shall be monitored and followed up. The outcome of this evaluation constitutes a part of the assessment of risks described in this section.

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

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

Risks that impact Essity's ability to achieve established targets

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

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

Risk	Policy/Action
Dependence on major customers and distributors	
The retail trade is Essity's single largest customer group and thus exercises considerable influence. Around 59% of Essity's net sales are made as retailer's brands, under both Essity's brands and retailer's own brands. Essity also uses distributors or retailers to reach certain markets. If these distributors or retailers are not successful in selling Essity's products, this could have a negative impact on Essity's earnings. A general consolidation trend is taking place in several of Essity's sales channels, which could increase dependence on individual customers. In the retail trade, for example, the prevailing trend is towards increased concentration, which has mainly resulted in fewer retail companies at a national and regional level. A more consolidated customer situation may mean larger volumes are concentrated to an individual customer and thereby increase dependence or sensitivity in a transaction.	Essity's customer structure is relatively dispersed, with customers in many different areas of business. In 2017, Essity's ten largest customers accounted for about 23% of net sales. Most of these customers were retail companies. The ten largest customers also include some large distributors of professional hygiene. Essity works to successfully maintain strong and long-term customer relationships with strategic customer segments and build relationships with new customers. The strength of Essity's customer relationships also affect the ability to obtain competitive pricing and selling terms. The processes for customer dialogue and customer follow-ups, both in economic terms and also in terms of how well we deliver on our commitments, such as service level, product complaints and availability, are important parameters for ensuring customer satisfaction and thereby long-term customer relationships. Credit risk in accounts receivable is dealt with in the section Credit risk, on page 71.
Movements in the market price of Essity's products	
Movements in the market price of Essity's products could create major fluctuations in the profitability of the product segment unless these movements can be offset by adjusting costs for Essity.	To reduce the impact of price movements on Essity, actions are taken to adapt the cost scenario to lower market prices, for example, by renegotiating purchasing agreements, implementing personnel and capacity reductions, and reviewing the business structure. In other cases, the product's content can be adapted to the new market price level.
Risks at plants	
Essity has around 90 production facilities in some 30 countries. Fires, machinery breakdowns and other types of harmful incidents could damage the plant in question and also cause delivery problems.	Essity's activities in this area are governed by its Risk Management Policy, which controls how Essity shall manage insurable operating risks. From this perspective, the aim of risk management is to effectively and cost efficiently protect the employees, the environment, the company's assets and the business, and to minimize Essity's risk management costs. This can be achieved by creating and retaining a balance between loss prevention and insurance coverage. The loss-prevention work is conducted in accordance with established guidelines that include inspections by risk engineers and benchmarking with other plants, within and outside Essity. Other important elements of loss-prevention activities include maintenance of plants and machinery, staff training, and good orderliness. Every year, Essity invests in loss-prevention measures and its plants continuously work to reduce their risks. For example, new facilities are protected with sprinkler systems as standard. All wholly owned plants are insured to replacement cost and for the loss of income. Within the EU, insurance is primarily carried out by the Group's own companies, with external reinsurance for major damages. Outside the EU, Essity cooperates with market-leading insurance companies.
Occurrence of unethical business practices and human rights violations	
Essity works in some 150 countries and in environments where unethical business practices and violations of human rights may occur. Risks associated with business ethics are considered one of the most serious risks for Essity. If Essity becomes involved in these business practices, the company's reputation in the market may be damaged and Essity may also suffer high fines and other legal sanctions.	To ensure that Essity's organization is not drawn into or tied to unethical business practices or human rights abuses, there has been a Code of Conduct established since 2004. The Code is reviewed on an annual basis to ensure that new laws and guidelines are taken into account. The Code contains principles that include business ethics, relationships to employees, respect for human rights and the environment and so forth. Training of all of Essity's employees regarding the Code of Conduct takes place continuously. Essity's regulatory compliance program is also assessed every year relating to anti-corruption. Training programs for managers, with a focus on various business ethics dilemmas, have been drawn up and implemented throughout the organization. To ensure that Essity's regulatory compliance program for risks associated with business ethics is efficient, it is continuously reported to a committee that includes members from Essity's management.

Risk	Policy/Action
Suppliers	
Essity is dependent on a large number of suppliers. The loss of key suppliers could result in costs for Essity and problems in manufacturing. Suppliers could also cause problems for Essity through non-compliance with applicable legislation and regulations or by otherwise acting in an unethical manner.	To reduce this risk, Essity has supply contracts with a large number of suppliers and continuously enters into agreements with various durations. The Group has several suppliers for essentially all important input goods. These contracts ensure deliveries of a significant proportion of input goods. The Group also has more intensive cooperation with selected suppliers that covers the development of materials and processes. Essity continuously assesses suppliers to ensure that they meet Essity's standards in all respects in accordance with a risk-based methodology that places a special emphasis on suppliers in high-risk countries and high-risk industries, such as fiber and cotton. The assessment may take the form of a questionnaire, an on-site visit or the use of independent auditors. For essentially all important input goods, Essity assesses the following factors at current and potential suppliers: • Quality • Product safety • Impact on the environment, including the issue of the origin of the input goods • Use of chemicals • Regulations for medical solutions • Compliance with Essity's Code of Conduct See page 83 for more information.
Cost of input goods	
The market price of many of the input goods used in the manufacture of Essity's products fluctuates over time and this could influence Essity's earnings. Highest/lowest market prices (annual average) 2007–2017 per product Index 175 150 125 100 75 50 25 0 Recovered paper – OCC (EUR) Recovered paper – ONP/OMG (EUR) Pulp – NBSK (USD) Pulp – EUCA (USD) Oil-based material – Propane (SAP) (EUR) — Average price for the period	Fiber raw material constitutes a major cost item for Essity, primarily in Consumer Tissue and Professional Hygiene. Fluctuations in the price of Fiber raw material are mainly managed through long-term relationships with suppliers and by optimizing global purchasing and the fiber mix. Oil-based materials constitute a major cost item, primarily in Personal Care and as packaging material. Other oil-price related expenses comprise, for example, transportation. When possible, these and other costs are managed principally through compensation in the form of raised prices for Essity's products, by adjusting product specifications or through streamlining of the Group's own operation. The impact of price movements on input goods can be delayed through purchasing agreements. Essity's relative costs for various key input goods are described on page 168. The price trend for a number of input goods over the past ten years is presented in the diagram to the left.
Employee-related risks	
Essity must have access to skilled and motivated employees and safeguard the availability of competent managers.	Essity works in a structured manner to ensure the health and well-being of its employees through proactive preventative healthcare activities, such as education, exercise, special initiatives, for example, to help employees quit smoking and by offering health checks in several countries. Essity also places great importance on safety activities. Essity's strategic manpower planning secures access to people with the right expertise at the right time. Recruitment can take place both externally and internally, and internal recruitment and job rotation are facilitated by a job portal, where available positions are advertised both internally and externally. Salaries and other conditions are to be adapted to the market and linked to Essity's business priorities. An established succession planning program protects the operations. Essity strives to maintain good relationships with union organizations.
Legal risks	
New legislation in various countries could negatively impact Essity. Legal processes can be protracted and costly.	Essity monitors the development of legislation through its corporate legal staff and external advisors. In the countries in which Essity conducts operations, local legal issues and disputes are handled through local legal advisors.
Information and IT risks	
Essity relies on IT systems in its day-to-day operations. Disruptions or faults in critical systems have a direct impact on production and important business processes. Errors in the handling of financial systems can affect the company's reporting of results. These risks grow in an increasingly technically complex and interlinked world.	Essity has established a management model for IT that includes governance, standardized IT processes and an organization for information security. The IT security work includes continuous risk assessment, preventive measures and use of security technologies. Standardized processes are in place for the implementation and change of systems and IT services and for daily operations. The majority of Essity's system landscape is based on well-proven products, such as SAP.

Risk

Policy/Action

Energy price risk

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

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

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

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

The graph displays Essity's price hedges in relation to forecast consumption of electricity and natural gas for the next three years. The graph includes financial hedges and hedging effected via supply agreements. For further information concerning financial price hedges, see Note E6 Derivatives and hedge accounting on page 129.

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

Year	Electricity (%)	Natural gas (%)
2018	30	50
2019	20	30
2020	0	0

Currency risk

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

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

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

Transaction exposure
Transaction exposure, resulting from exports and imports, can be hedged for a period of up to 18 months. Contracted future payments for non-current assets in foreign currencies can be hedged up to the full cost.

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

Forecast and hedges relating to flows in 2018

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

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

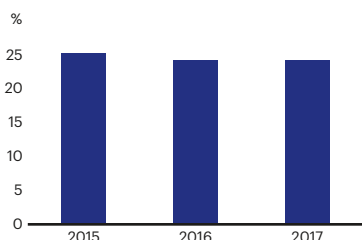
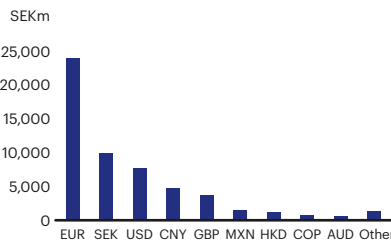
¹⁾ Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability.

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

For further information relating to hedging of translation exposure, see Note E6 Derivatives and hedge accounting on page 129.

Net debt distributed by currency

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

Risk	Policy/Action																													
Credit risk																														
Credit risk refers to the risk of losses due to a failure to meet payment obligations by Essity's counterparties in financial agreements or by customers.	Credit risk in accounts receivable Credit risk in accounts receivable is managed through credit checks of customers using credit rating companies. The credit limit is set and regularly monitored. Accounts receivable are recognized at the amount that is expected to be paid based on an individual assessment of each customer. Financial credit risk The objective is that counterparties must have a minimum credit rating of A- from at least two of the rating institutes Moody's, Fitch and Standard & Poor's. Essity strives to enter into agreements that allow net calculation of receivables and liabilities. Credit exposure in derivative instruments is calculated as the market value of the instrument. At year-end, the total credit exposure was SEK 4,964m (5,214; 6,591). This exposure includes credit risk of SEK 4,106m (4,244; 4,828) for financial investments.	Credit exposure in derivative instruments amounted to SEK 858m (971; 753) at December 31, 2017. Ten largest customers' share of outstanding accounts receivable  <table><tr><th>Year</th><th>Share (%)</th></tr><tr><td>2015</td><td>25</td></tr><tr><td>2016</td><td>25</td></tr><tr><td>2017</td><td>25</td></tr></table>	Year	Share (%)	2015	25	2016	25	2017	25																				
Year	Share (%)																													
2015	25																													
2016	25																													
2017	25																													
Liquidity and refinancing risk																														
Liquidity and refinancing risk is the risk that Essity is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising new loans.	To ensure good access to loan financing, regardless of the economy and at attractive terms, Essity strives to maintain a solid investment grade rating. Essity is to maintain financial flexibility in the form of a liquidity reserve consisting of cash and cash equivalents and unutilized credit facilities totaling at least 10% of the Group's forecast annual sales. Essity limits its refinancing risk by having a good distribution in the maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, considering unutilized credit facilities that are not liquidity reserves. Surplus liquidity should primarily be used to amortize external liabilities. Essity's policy is to not agree to terms that entitle the lender to withdraw loans or adjust interest rates as a direct consequence of movements in Essity's financial key figures or credit rating. The Group's financing is mainly secured by bank loans, bond issues and through issuance of commercial papers. The refinancing risk in short-term borrowing is limited through long-term credit facilities from bank syndicates and individual banks with favorable creditworthiness. Essity's net debt increased SEK 17,294m in 2017.	At year-end, the average maturity of gross debt was 4.3 years (4.0; 3.5). If short-term loans were replaced with drawings under long-term unutilized credit facilities, the maturity would amount to 4.5 years. Unutilized credit facilities amounted to SEK 19,680m at year-end. In addition, cash and cash equivalents totaled SEK 4,107m. For further information, see Note E2 Financial assets on page 127, cash and cash equivalents, and Note E4 Financial liabilities on page 128. Liquidity reserve <table><tr><th>SEKm</th><th>2017</th><th>2016</th><th>2015</th></tr><tr><td>Unutilized credit facilities</td><td>19,680</td><td>19,164</td><td>18,583</td></tr><tr><td>Cash and cash equivalents</td><td>4,107</td><td>4,244</td><td>4,828</td></tr><tr><td>Total</td><td>23,787</td><td>23,408</td><td>23,411</td></tr></table> <table><tr><th>SEKm</th><th>2017</th><th>2016</th><th>2015</th></tr><tr><td>Net sales</td><td>109,265</td><td>101,238</td><td>98,519</td></tr><tr><td>Liquidity reserve¹⁾</td><td>22%</td><td>23%</td><td>24%</td></tr></table> ¹⁾ Liquidity reserve as a percentage of net sales.	SEKm	2017	2016	2015	Unutilized credit facilities	19,680	19,164	18,583	Cash and cash equivalents	4,107	4,244	4,828	Total	23,787	23,408	23,411	SEKm	2017	2016	2015	Net sales	109,265	101,238	98,519	Liquidity reserve ¹⁾	22%	23%	24%
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Liquidity reserve ¹⁾	22%	23%	24%																											
Interest rate risks																														
Interest rate risk relates to the risk that movements in the interest rates could have a negative impact on Essity. Essity is affected by interest rate movements through its net financial income and expense.	Essity seeks to achieve a good distribution of its interest maturity dates to avoid large volumes of renewals occurring at the same time. Essity's policy is to raise loans with floating rates, since it is Essity's understanding that this leads to lower interest expense over time. The interest rate risk and interest period are measured by currency and the average interest term shall be within the interval 3 to 36 months. Essity's net financial items increased in 2017, primarily a result of higher average net debt. Lower interest rates had a positive impact on financial items during the period. Essity's largest funding currencies are EUR, SEK and USD, refer to the graph. To achieve the desired fixed interest period and currency balance, Essity uses financial derivatives. The average interest period for the gross debt, including derivatives, was 30.1 months (8.5; 9.2) at year-end.	The average interest rate for the total outstanding net debt including derivatives, amounted to 1.83% (2.26; 3.11) at year-end. Gross debt distributed by currency  <table><tr><th>Currency</th><th>SEKm</th></tr><tr><td>EUR</td><td>24,000</td></tr><tr><td>SEK</td><td>10,000</td></tr><tr><td>USD</td><td>8,000</td></tr><tr><td>CNY</td><td>5,000</td></tr><tr><td>GBP</td><td>4,000</td></tr><tr><td>MXN</td><td>2,000</td></tr><tr><td>HKD</td><td>1,000</td></tr><tr><td>COP</td><td>1,000</td></tr><tr><td>AUD</td><td>1,000</td></tr><tr><td>Other</td><td>1,000</td></tr></table>	Currency	SEKm	EUR	24,000	SEK	10,000	USD	8,000	CNY	5,000	GBP	4,000	MXN	2,000	HKD	1,000	COP	1,000	AUD	1,000	Other	1,000						
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COP	1,000																													
AUD	1,000																													
Other	1,000																													

Essity's business model

Approximately 48,000 employees around the world.

Approximately 90 production facilities.

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

Essity had a solid investment grade rating.

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

Net debt amounted to approximately SEK 52bn.



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

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



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

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

Value added in 2017

SEK 5.75	41	More than 2.5 million	-1.3%	-6%
proposed dividend per share	innovations	educated in hygiene and health	CO ₂ emissions	accident frequency rate

Shareholders

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

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

Employees

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

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

Society

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

In 2017

- CO₂ emissions in relation to production level were reduced by 1.3%.
- Essity paid about SEK 3bn in income taxes. Payroll taxes for the year amounted to approximately SEK 3bn.
- Essity invested approximately SEK 16m in just over 300 local community involvement projects.

Customers and consumers

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

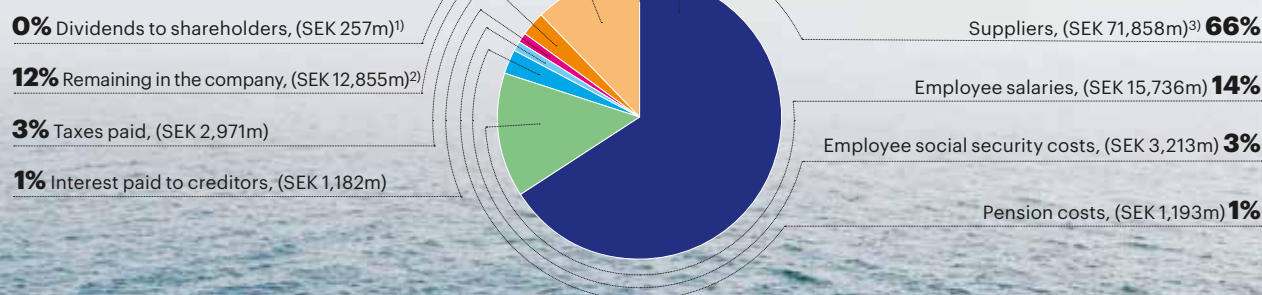
- In 2017, Essity educated more than 2.5 million children, women, men, parents, relatives and caregivers throughout the world in hygiene and health.
- 41 innovations that improved our customer and consumer offerings were launched during the year.

Suppliers

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

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

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



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

Materiality analysis

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

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

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

The respondents were able to select the ten areas they considered to be most important from the list of 21. The

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

In terms of materiality, there is a high degree of consensus between the views of stakeholders and those of Essity with respect to the top five areas. Overall, the most material areas were deemed to be business ethics, innovation, customer and consumer satisfaction, health and safety, and strong brands. Among investors and analysts, corporate governance came in second place and supply chain and purchasing in fourth. Among customers and consumers, product safety and CO₂ emissions were among the top five priority areas. Among suppliers, transparency was ranked in fourth place. The results of the survey appear to be reasonable and relevant and provide us with a basis for the further development

of our strategy and operations, and for the content of the Annual and Sustainability Report.

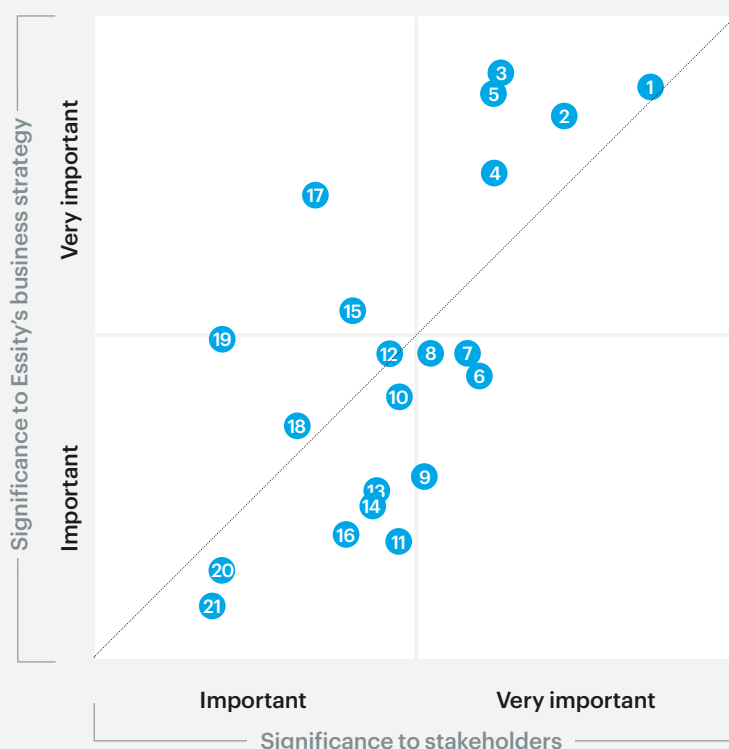
The diagram below shows how the 21 areas were ranked in the survey: the horizontal X axis shows the responses of all respondents except Essity's senior executives, whose responses are shown on the Y axis.

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

1 Business ethics

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

Essity's materiality analysis



The factors considered most material to Essity's stakeholders

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

countries with a relatively high risk of corruption.

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

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

2 Innovation

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

3 Customer and consumer satisfaction

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

4 Health and safety

Health and safety are important to our stakeholders and critical for Essity's business. Our aim is zero workplace accidents. The health and safety of employees in the workplace is highly prioritized.

In addition to promoting health and safety at our own sites, we check suppliers' practices and collaborate with them to improve safety performance. Read more about health and safety on page 80.

5 Brands

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

6 Human rights

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

7 Product safety

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

8 Transparency

Open and responsible communication is important to Essity. We aim to be perceived as a transparent and professional partner, and we will continue to strengthen Essity's position as a leading global hygiene and health company by

being available, agile and proactive.

We report our sustainability disclosures in accordance with the GRI Reporting Standards in our Annual and Sustainability Report, which is audited by external auditors. The GRI index is presented on page 162.

9 CO₂ emissions

Essity has established ambitious climate objectives and continuously endeavors to minimize emissions from its own production operations and purchased electricity. Essity's efforts to reduce its climate impact and energy use are manifested through numerous projects, investments and modifications of processes, all of which contribute individually to the target of reducing CO₂ emissions. Read more about climate and energy on page 81.

10 Resource efficiency

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

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

11 Water use and water purification

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

12 Corporate governance

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

13 Fiber sourcing

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

14 Value chain efficiency

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

15 Market positions

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

16 Post-consumer waste

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

17 Human capital

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

18 Risk management

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

19 Digitalization

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

20 Distribution

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

21 Tax

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

Sustainability governance

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

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

Essity's overall social management approach is to assess how the company, through its operations, impacts and interacts with people and to develop strategies

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

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

Sustainability governance

Essity's Executive Management Team bears the overall responsibility for the control of Essity's business in the field of sustainability. Essity has a Group function in charge of sustainability, led by the Senior Vice President Sustainability, who reports to the CEO and is a member of the Executive Management Team. Apart from social and environmental affairs, the function is also responsible for the Group's Public Affairs and its Compliance & Ethics function. In close collaboration with the Business Unit

Presidents, the approved strategy and objectives are broken down into specific targets and activities to ensure delivery of the Group's objectives and business plans. Responsibility for implementation rests with the operational organization.

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

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

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

Summary of strategic components of Essity's sustainability governance

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

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

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

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

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

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

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

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

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

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

Monitoring

In addition to being reviewed by the company's external auditors, its operations are subject to external reviews and monitoring by, among others, the Swedish Financial Supervisory Authority and Nasdaq Stockholm. Life cycle assessments are another example of third-party assessments. Essity's own control systems include segregation of duties in critical processes and defined management responsibilities with regard to internal control. There is also a separate internal audit function at Essity that works to evaluate and improve the effectiveness of Essity's governance processes, risk management and internal control. Essity's internal audit organization contributes to the maintenance of

high standards of business practice and is involved in the monitoring of Code of Conduct compliance through, for example, audits. To support its work, the internal audit unit has a number of steering documents and policies.

Regulatory frameworks and positioning

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

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

Human rights

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

- Labor-related risks, including occupational health and safety, discrimination, forced labor and right to equal work for equal pay in Essity's direct and indirect operation (supply chain).
- Land rights risks associated with the sourcing of timber, fiber, and pulp – especially where indigenous communities are present.

- Risks related to water use by Essity's operations located in water-stressed regions that may infringe on the rights of local communities to water and sanitation.

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

Code of Conduct

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

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

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

Code of Conduct training

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

Procedures for reporting breaches

Essity offers its employees a number of channels for reporting breaches of the law or the Code of Conduct, such as through their line manager, HR Director, legal counsel or the compli-

ance function. Employees also have the opportunity to use a whistleblower system managed by an external party. Employees are able to report breaches anonymously, where permitted by law. The external whistleblower system is currently available for use in some 30 countries.

Code of Conduct audits

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

The content of the audits emanates from Essity's Code of Conduct, while the approach and methods are based on the SA8000 standard. The audits are conducted by cross-disciplinary teams from Essity, and include representatives from the internal audit, human resources and sourcing functions. The audits involve a review of documentation, inspection of the facility with a focus on health and safety, and interviews with managers, employees and union representatives.

Every audit results in a report and action plan for the audited unit, which are followed up. The results of the audits are reported to Essity's Board via the Audit Committee.

Competition rules

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

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

Business practice audits

Essity's business practice audits are conducted by the internal audit unit. The audits focus on business ethics and Essity's relationships with customers, suppliers and authorities. A large number of interviews are performed with managers and employees to ensure the effectiveness of the control environment and challenges in the local environment.

Employees

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

Essity's global human resource strategy aims to secure long-term capabilities and ensure that Essity is a safe and healthy workplace based on ethical business practices and perceived as a great place to work.

Secure access to the right people and capabilities

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

Individual development

All employees are to have an individual development plan that is defined and followed up during annual performance reviews. The reviews identify the capabilities necessary for employees to achieve stated targets. The employees and managers agree on the manner in which these skills should be secured, primarily through internal development opportunities. The objective is to follow up the performance of every employee twice a year.

A safe and healthy workplace based on ethical business practices

Essity works proactively with employee health and well-being. Each business unit is responsible for formulating a health program that suits its own operations.

Workplaces for all ages

With an aging workforce in some markets, Essity is facing new challenges since absence related to musculoskeletal disorders increases with age. This insight has resulted in Essity creating a workplace program containing technical improvements and attitude changes

to create a more ergonomic work environment and production lines.

Employee relations

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

European Works Council

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

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

Alternative forms of dialogue

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

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

Organizational changes

The notice period in connection with organizational changes in the Group varies, but averages about five weeks. In connection with organizational changes, Essity works to support the employees affected. This is done through discussions with labor unions at an early stage and by preparing a social action plan that is adjusted to local conditions. The action plan normally includes assistance in seeking employment and/or education. Other tools include severance pay,

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

Health and safety

OHSAS 18001 certification

Essity implements the international OHSAS 18001 (Occupational Health and Safety Assessment Series) standard to ensure that uniform processes are deployed across the Group, and that Essity units continuously improve their workplace health and safety. OHSAS specifies requirements for an organization's occupational health and safety management systems.

Safety policy and governance

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

Accident and risk/near miss reporting

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

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

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

Customers and consumers

Complaints procedures

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

Essity's innovation process

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

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

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

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

Launch: The innovation is introduced to customers/consumers in the market. The intended benefits are weighed

against market feedback; the supply chain is adjusted accordingly. Supply and demand balance is optimized in production to ensure efficiency. The feedback then drives the roll-out plan.

Open innovation

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

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

Life cycle management

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

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

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

Sustainable solutions are defined as innovative, safe, environmentally and socially sound hygiene products and services. Essity's innovations for people

and nature are based on customer and consumer insight with a focus on meeting needs in daily life. It is essential to optimize products and solutions during use to control consumption and reduce waste.

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

Life cycle assessments

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

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

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

Product safety

Essity follows strict requirements and procedures to ensure that all materials in the company's products are safe for consumers, employees and the environment. Essity has global product safety guidelines in place for all products to ensure that they are safe for their intended purpose. Product safety requirements are a key component of Essity's Global Supplier Standard, and the company works closely with its suppliers to ensure that its high standards are met. In recent years, there has been an increased focus on issues related to product safety, a trend that continued in 2017.

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

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

Manufacturing

Fiber sourcing

Fiber sourcing target

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

A global fiber database

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

The information also includes the suppliers' product certification status: FSC® (Forest Stewardship Council), PEFC™ (Programme for the Endorsement of Forest Certification), Controlled Wood, ecolabels and ISO 9000. As a result,

Essity can ensure traceability, the R&D department can check the availability of a certain raw material and the mills can show customers exactly what has been purchased. The database is continually updated to support Essity's global operations.

Supplier verification

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

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

Climate and energy

Science-based carbon target

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

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

ESAVE

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

Improved energy efficiency is an integral part of daily life at Essity. ESAVE is a program that encompasses investments in energy-efficient technical solutions, the involvement of employees in daily improvement activities and a general

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

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

MSAVE

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

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

Water

Water usage treatment

Essity works continuously to enhance its effluent treatment and thus the quality of the effluent water discharged from its plants. Mechanical treatment removes suspended solids, sand and particles,

while biological treatment extracts dissolved solids and organic impurities that affect biological oxygen demand (BOD) and chemical oxygen demand (COD).

Waste management

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

Production waste target

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

Products and solutions

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

Post-consumer and customer waste

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

For our products in the Personal Care business area, energy recovery through combustion is a good alternative to landfill. There is currently no infrastructure and no established business

models for collecting and recycling used products. We are working proactively with external partners to assess other alternatives for recycling.

Transport

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

Shipping

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

Road transport

Essity engages in a number of collaboration projects to cut transport emissions, such as Lean & Green in the Benelux countries, Germany and Italy, FREIGHT21 in France and numerous other local initiatives aimed at reducing CO₂ emissions. Essity is also test-driving trucks with a larger cargo volume in various markets to reduce the number of trips needed to transport tissue.

Rail transport

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

Supply chain management

Global Supplier Standard

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

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

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

Reporting in the Supplier Ethical Data Exchange, Sedex

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

Processes for supplier risks

Essity continuously develops its supplier risk assessment to ensure compliance with social and ethical sustainability criteria, including respect for human rights and working conditions. Sustainability

matters are taken into consideration both when evaluating potential suppliers and in the continuous risk assessment of suppliers and purchased materials, products and services. One source of input is the supplier data registered in Sedex, but other risk-related input is also considered.

Ethical supplier audits

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

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

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

In addition, Essity requires documented chain of custody from suppliers if a product may contain potential conflict minerals. This mainly applies to paper dispensers for public bathrooms with electronic components containing metals whose origins are to be reported using the Conflict Minerals Reporting Template from the Responsible Minerals Initiative.

Control of cotton providers

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

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

Community relations

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

www.essity.com/sustainability.