

A close-up photograph of an older man with grey hair and glasses, wearing a white shirt, embracing a woman with long brown hair and freckles, wearing a grey cardigan over a white top. They are outdoors, with a bright, hazy background suggesting a sunny day. The man is on the left, looking down at the woman, who is on the right, looking slightly away from the camera.

A value-creating strategy

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



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



External trends and drivers

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

Growing and aging population

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

This growing population is resulting in an increased demand for hygiene and health products and thus creating favorable growth opportunities for Essity. The greatest global population increase is expected to occur in Asia, Latin America and Africa. Our presence in most of these markets and our offering of adapted products is thus strategically important. Essity is prioritizing growth in selected emerging markets, such as China, Southeast Asia, Latin America, Eastern Europe and Russia.

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

Higher standard of living

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



Global insight into hygiene and health

Limited or no access to hygiene and sanitation is one of the greatest global challenges. There is a growing awareness of the relationship between good hygiene and health, and how this improves well-being in the world, as indicated by the UN's 17 Sustainable Development Goals. Access to good personal hygiene impacts health, dignity and participation in society, such as in education and working life. Hygiene is a catalyst for economic growth. Hygiene is also key in avoiding the spread of infection, not only in the most basic situations and in emerging markets. Good hygiene also reduces the spread of, for example, antibiotic-resistant bacteria, which is a major challenge in modern healthcare. Essity continuously develops new hygiene and health solutions and is educating, for example, healthcare & medical staff in incontinence and good hand hygiene. Young women are educated about menstruation and puberty, and children and preschool teachers are taught about the importance of good hand hygiene. Incontinence products enable people to live more active and dignified lives. Though taboos and stigma exist about such issues

as menstruation and incontinence in both emerging and mature markets. Improved knowledge is important to elevate hygiene and health standards as well as well-being.

Increased prevalence of chronic conditions and access to healthcare

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

Sustainable consumption and the circular economy

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

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

Digitalization

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

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



The company behind the brand

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

Scarce resources

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

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

only resource-efficient, but often also generates fewer emissions.

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

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

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

Climate change

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

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

UN's 17 Sustainable Development Goals

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





Risks, external dialogue and materiality analysis

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



Risks and opportunities

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

The responsibility for long-term and overall management of strategic risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to the Business Unit Presidents. A description of the most significant risks that impact Essity's opportunities to achieve its established targets, and how these risks are managed, is presented on pages 66–71.

Continuous dialogue

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





Key areas for Essity and our stakeholders

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

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

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

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

Health and safety are important to our stakeholders and critical for Essity's business. Essity's aim is zero workplace

accidents. The health and safety of employees in the workplace has the highest priority. In addition to promoting health and safety at our own sites, we check suppliers' practices and collaborate with them to improve safety performance.

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

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



Essity's strategic framework

Vision and mission

VISION

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

MISSION

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

Objectives

Generate increased **shareholder** value through profitable growth

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

Contribute to a sustainable and circular **society**

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

Read more on pages **18–21**

Strategies

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

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

Innovate bigger **brands**

Drive **efficiency**

Read more on pages **22–29**

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

Our objectives

■ Generate increased shareholder value through profitable growth

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

■ Contribute to a sustainable and circular society

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

■ Enable more people every day to enjoy a fuller life

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

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

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

Our strategies

■ Win in chosen geographies and categories

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

■ Innovate bigger brands

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

■ Focus on customers and consumers

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

■ Drive efficiency

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

Generate increased shareholder value through profitable growth

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

Dividend

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

Financial targets and outcome

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

Profitable growth

Essity focuses on profitable growth in order to increase the Group's value creation and the total shareholder return. We prioritize to grow and invest in product categories and markets with high profitability. Investments are made in, for example, innovation initiatives, marketing activities and upgrades of machines or new machines. Regarding market positions with inadequate profitability, Essity is working to improve profitability. During 2017, Essity has, for example, continued to improve profitability and also increased organic sales for Incontinence

Products in North America. We have taken the decision to discontinue operations in product categories and in markets where we concluded that the necessary investments are not expected to create value and where profitability cannot be improved within a reasonable time frame. Due to this, we discontinued the hygiene business in India in 2017.

Value-creating acquisitions

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

Focus on cost and capital efficiency

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



Enable more people every day to enjoy a fuller life

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

“Essentials Initiative”

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

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

Follow our global dialogue on www.essentialsinitiative.com.

Knowledge is key

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

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

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

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

Presence in emerging markets

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



Essity and WSSCC break the silence surrounding menstruation

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

Contribute to a sustainable and circular society

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

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

Circular opportunities

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

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

Efficiency improvements in production

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

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

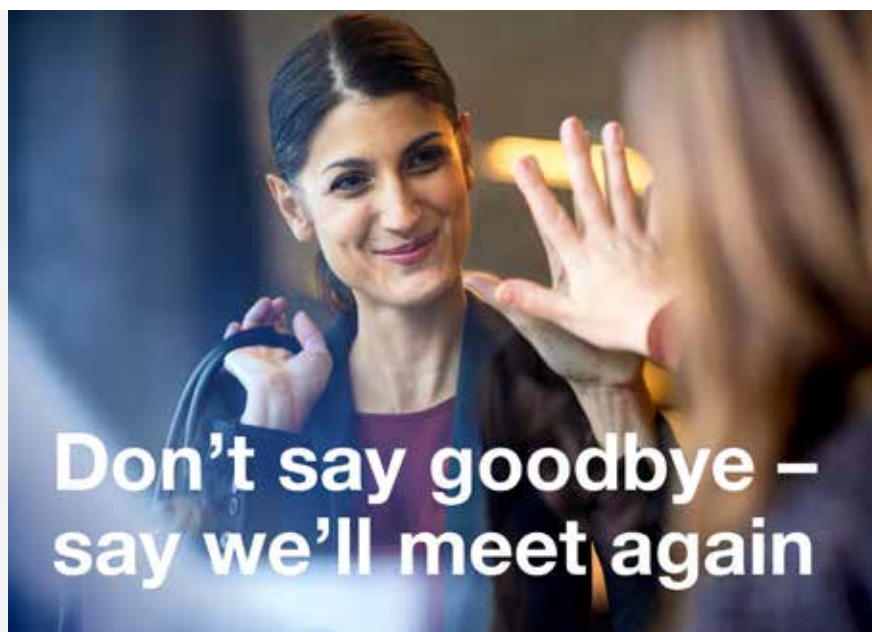
Effective products for our customers

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

Tork PaperCircle™

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

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



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

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

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

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

Every career is unique

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

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

Successful leadership

Leadership is key to success and our leaders play a vital role in inspiring and challenging employees to develop and contribute towards achieving the business targets. We continuously pursue leadership development and in 2017, we continued to train and

coach managers within the framework of our Group wide development program. During the year, we launched a new tool for change management, which was mainly rolled out to support managers in the integration of BSN medical.

Further development of a successful culture

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

Safe and healthy workplace

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

Employee relations

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

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

We are committed to delivering superior results 	We care for customers, consumers, the environment and each other 	During the year, Essity has developed and begun introducing its "Beliefs & Behaviors". Four "Beliefs" are described with key behaviors linked to each of these.
We have the courage to take the lead 	We collaborate across teams, functions and businesses 	



Win in chosen geographies and categories

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

Prioritized markets

Essity has a clear priority for which geographic markets it wants to operate in, and which categories it will offer in these markets. Sales are conducted in approximately 150 countries. In approximately 90 of these, Essity holds the number one or two position in at least one pro-

duct segment. We prioritize investments and growth in market positions where profitability is high. By focusing on innovation and improving and expanding our customer and consumer offering, we strengthen our market positions and brands. Innovation and product launches are important for improving our price

and product mix, and increasing our sales. Investments could, for example, take the form of innovation initiatives, marketing activities and upgrades of machines or new machines.

Addressing weak market positions

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



Launch of Lotus Baby in France

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



Consumer Tissue in Mexico

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



Emerging markets

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

Expanding the customer offering

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

Acquisition of BSN medical

The acquisition of BSN medical, a leading medical solutions company that develops, manufactures, markets and sells products within wound care, com-

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



Focus on customers and consumers

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

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

quality of life and well-being among our target groups.

We study the world around us and identify trends and new needs. We learn a lot from our sales representatives and we conduct regular customer satisfaction surveys. We engage in a dialogue with consumers through focus groups and in-depth interviews. We observe consumer and customer behavior, for

example, through home visits. We also gain insight into the needs of consumers and their perceptions of our products by following the discussions on our websites, such as www.libero.com, www.libresse.com and www.tena.com, and on social media.

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



The Period Challenge

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

<https://mensutmaningen.se/start>

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

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

Tork PeakServe® is specifically designed for high-traffic areas. With the highest capacity in the market, it can serve 250% more visitors between refills compared with a traditional paper hand towel dispenser. This results in fewer complaints about empty paper hand towel dispensers. The time cleaning staff save by less frequent refilling can be

spent on other tasks to enhance the visitor's washroom experience. The system is easy to load, generates less waste and gives a more hygienic and pleasant washroom. Furthermore, the paper hand towels are compressed by 50%, which results in smaller pack sizes and thus reduced storage space requirements.

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



Talking about lymphedema and sharing experiences

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

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

Since her diagnosis, Amy has taken part in a number of pageants to give a voice to lymphedema. She feels that sharing experiences

is the first step to recovery. In fact, Amy volunteered to model garments for the JOBST® photo shoot in spring 2017. Amy wore the products that she currently uses, the JOBST® Elvarex daytime garment and the JOBST® Relax night-time garment.

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

About lymphedema:

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



Innovate bigger brands

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

Innovation efforts driven by commitment, care and courage

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

Open innovations

As a natural part of our way of working with innovations, we embrace open innovations. We team up with the best players in the world and benefit from external resources and their knowledge to enable us to act fast in a world where trends and needs constantly change. One example is our partnership with the organization Plug and Play, which offers a global innovation platform that joins startups with larger established companies. Collaborations like this give rise to

new business concepts, shorten project lead times, enhance output and value, while being resource effective at the same time.

Digital solutions

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



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

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

New TENA Lady Pants Discreet designed by Ceri Williams

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



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

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

time information to janitors and facility managers to ensure that these products are replenished in time.

Innovative and impactful marketing

To ensure successful launches of our innovations and to strengthen our brands, we need to be innovative also in our marketing. Essity's advertising campaigns are increasingly launched via social media. We want to create stories others like and share. In Feminine Care, under our Libresse and Bodyform brands for example, we are challenging the taboos surrounding menstruation. In 2017, we launched #bloodnormal, a film on digital and social media that use red liquid in place of blue to realistically depict periods. With more than 50 million impressions on social media, the campaign was successful in driving

conversations and debate concerning menstruation. In the UK, parallel with this campaign, Essity arranged lectures at school led by experts from "The Self Esteem Team". The lessons were free and addressed problems related to mental health and self-esteem, and openly talked about menstruation.



In 2017, we launched #bloodnormal, a film on digital and social media that use red liquid in place of blue to realistically depict periods. See the entire film at <https://www.youtube.com/watch?v=QdW6lRsuXaQ>



Drive efficiency

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

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

Safety first

Essity's aim is zero workplace accidents. Sadly, a contractor was fatally injured during 2017 in a fire at our factory in Svetogorsk in Russia. The fatal accident emphasizes how important it is that safety efforts must always be prioritized and developed. Essity is working to nurture a culture where safety is top of

mind and where unsafe working conditions and behaviors are immediately reported and rectified in order to prevent future accidents. Our employees continuously receive training so that everyone in the organization will be able to detect and eliminate hazards.

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

Resource efficiency

To achieve the objective of contributing to a circular and sustainable society while increasing cost savings, Essity focused on reducing resource

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

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

Digitalization for improved efficiency

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

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



ESAVE

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

Digitalization for world-class production

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

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

Tissue Roadmap

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

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

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



Targets and outcomes

Organic sales growth

Annual organic sales growth of above 3%.

TARGET

>3%

OUTCOME 2017

1.2%

Adjusted return on capital employed

Adjusted return on capital employed of above 15%.

TARGET

>15%

OUTCOME 2017

14.9%

Capital Structure Policy

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

OUTCOME 2017

Essity had a solid investment grade rating.

Responsible sourcing

Global Supplier Standard

We evaluate all of our supply streams from a total risk perspective. By 2020, we aim to source 100% of our procurement spend from suppliers committed to the criteria specified in our Global Supplier Standard.

TARGET

100%

OUTCOME 2017

64%

Fiber Sourcing

All fresh fiber in our products is to be FSC® or PEFC™ certified, or fulfill the FSC standard for controlled wood.

TARGET

100%

OUTCOME 2017

99.9%

Resource-efficient production

Employee Health and Safety

Our aim is zero workplace accidents, and we will decrease our accident frequency rate by 50% between 2014 and 2020.

TARGET

-50%

OUTCOME 2014-2017

-38%

Climate and energy

We will reduce CO₂ emissions from fossil fuels and from purchased electricity and heating by 20% by 2020, with 2005 as reference year.

TARGET

-20%

OUTCOME 2005-2017

-17.9%

Water

By 2020, with 2014 as reference year, our plants will:

• Reduce levels of suspended solids by 10%.

TARGET

-10%

OUTCOME 2014-2017

-19.7%

• Reduce water usage by 10%.

-10%

-4.7%

• Reduce organic content (BOD) by 10%.

-10%

-25.4%

Sustainable solutions

People and nature innovations

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

Hygiene solutions

We will make our knowledge about hygiene and health available to customers and consumers and ensure access to affordable, sustainable solutions to help them live a healthy, dignified and fuller life. In markets in which we operate, we will:

- Provide information and implement education programs on hygiene and health.
- Contribute to raising hygiene and health standards.

TARGET

>33%

OUTCOME 2017

42%

Share of Essity's innovations that yielded social and/or environmental improvements.

OUTCOME 2017

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

Waste management

Production waste

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

TARGET

100%

OUTCOME 2017

62%

Business ethics and human rights

Code of Conduct

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

TARGET

100%

OUTCOME 2017

93%

of new employees

90%

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

Responsible sourcing

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

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

Essity is one of the world's largest buyers of pulp fiber. As such, we have the opportunity to promote sustainable forestry at the global level by ensuring that Essity only purchases fresh fiber derived through responsible forest management – forests managed under good working conditions and with respect for biodiversity and the rights of indigenous communities. All of the wood fiber that Essity buys and uses in its production must be certified in accordance with the FSC® or PEFC™ standard. At a minimum, the fiber must meet the requirements of the FSC standards for Controlled Wood, which guarantee that the origin of the fiber has been controlled by an independent party. The target includes all deliv-



eries of fresh fiber (pulp, packaging, mother reels and goods purchased by Essity from other suppliers). We engage in an ongoing stakeholder dialogue in order to manage risks in the supply chain. During the year, for example, we were involved in a dialogue with Greenpeace regarding fiber sourcing from the boreal forest region.

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

Our work with fiber suppliers

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

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

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



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

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

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

Resource-efficient production

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

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

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

Cuijk in the Netherlands

Essity replaced the dryer hoods in the tissue machine at its tissue plant in Cuijk in the Netherlands with a new, environmentally friendly technology. Energy efficiency has thereby increased by 10%, resulting in a reduction in CO₂ emissions. The company also replaced natural gas with biofuel in the plant's steam production. These measures resulted in cost savings and an annual reduction in CO₂ emissions of 13,000 tons.



Nokia in Finland

In 2017, Essity's tissue plant in the Finnish town of Nokia built a partially closed water system by installing larger water tanks. This resulted in a reduction in water usage of 25% (700,000 m³). By reusing water that has already been heated, the plant can also save energy, leading to cost savings and lower CO₂ emissions.



Mannheim in Germany

Essity has invested EUR 7.7m in a new wastewater treatment technology in Mannheim, Germany. The new technology will reduce emissions of organic materials into effluent water (COD) by 20% and generate biogas to replace the use of natural gas as fuel, thereby cutting CO₂ emissions by 4,000 tons per year. The new wastewater treatment technology will also reduce the volume of production waste and the use of chemicals, resulting in cost savings.

Sustainable solutions

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

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

raise hygiene standards in the markets where we have operations.

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

The materials we use in our products are safe for consumers, employees and the environment. We guarantee this by following the strict requirements and procedures in place for our various

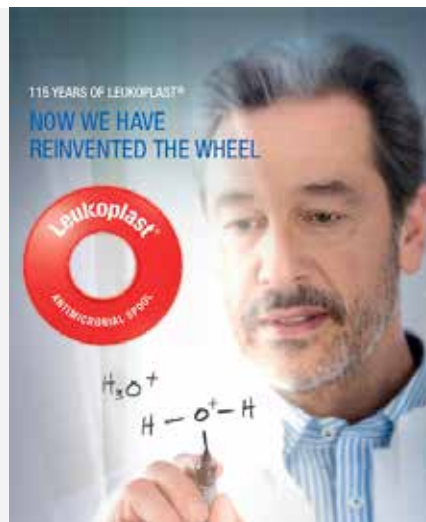
products. We also engage in a close dialogue with our suppliers and ensure that they comply with our Global Supplier Standard.

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

Leukoplast®

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

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



Saba Buenas Noches

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





Education in Latin America

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



Examples of customer awards in 2017

“Non-Edible Grocery Supplier of the Year”

from the ASDA retail chain in the UK

“Supplier of the Year for Outstanding Cooperation and Support”

from Network, an organization with 75 independent distributors in North America

“Top Non-Grocery Supplier”

from the Wal-Mart retail chain in Mexico

“Best Collaboration and Proactivity”

from the Office Depot Europe office supply company in the UK and Ireland

“Cornerstone Partner Award”

from Gordon Food Service (GFS) in North America

“Best Supplier”

from Intrakoop in the Netherlands, Group Purchase Organization for Healthcare

“Out of Home Award”

in the Catering category in the Netherlands

New generation of Libero Up&Go, Nordic

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

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



After-use management

Tork PaperCircle™

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



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



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

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

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

Another way of reducing our environmental impact is through responsible handling of production and post-

consumer waste, thereby contributing to a sustainable and circular society. One example is our tissue, which is made using a significant portion of recovered fiber. Several of the markets where Essity operates already have the infrastructure to collect used paper and sell it to companies that use recovered fiber.

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

One path forward is our membership in CE 100 within the Ellen MacArthur

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



Business ethics and human rights

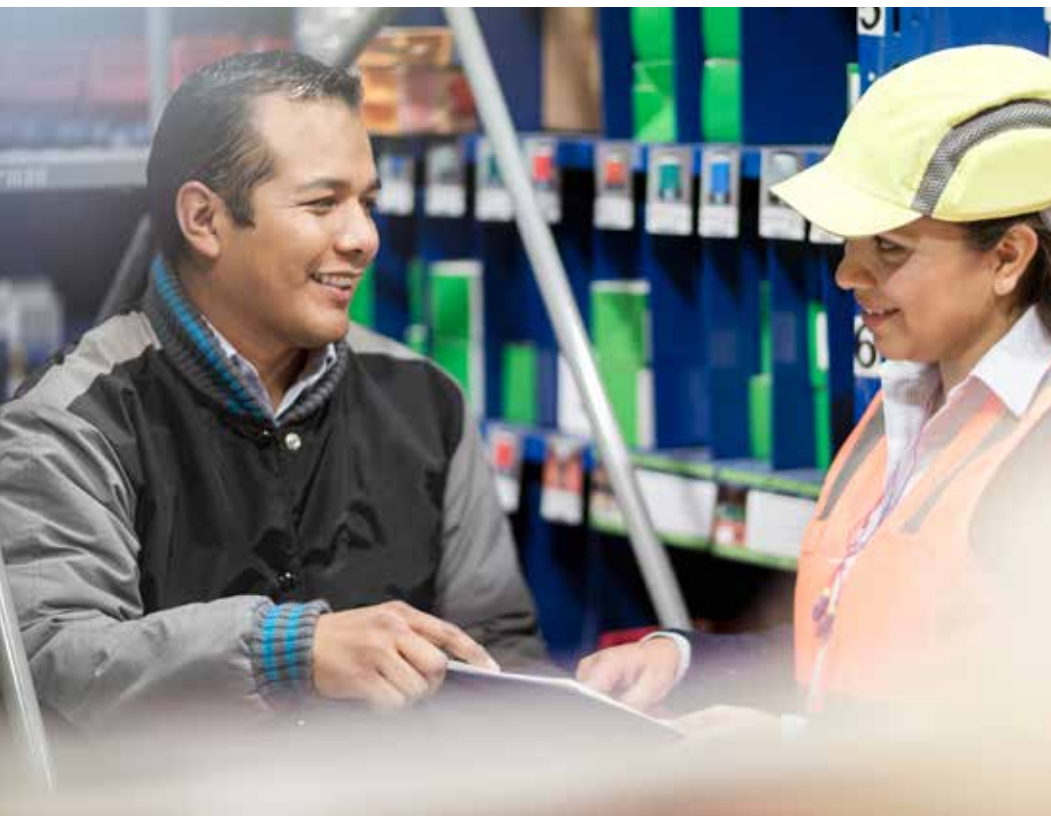
Essity's Code of Conduct is a cornerstone in our efforts to ensure that our business operations are responsible and that we conduct ourselves with integrity in our interactions with our stakeholders.

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

to follow the criteria in this standard accounted for 64% of Essity's procurement spend in 2017. The goal is that 100% of our suppliers will follow these criteria by 2020.

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

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



Workshops on human rights

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

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