

Operations and structure

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

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

Organization

Essity has the following four business units:

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

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

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

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

The organization has four Group functions:

- Communications
- Finance
- Human Resources
- Legal Affairs

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

Events during the year

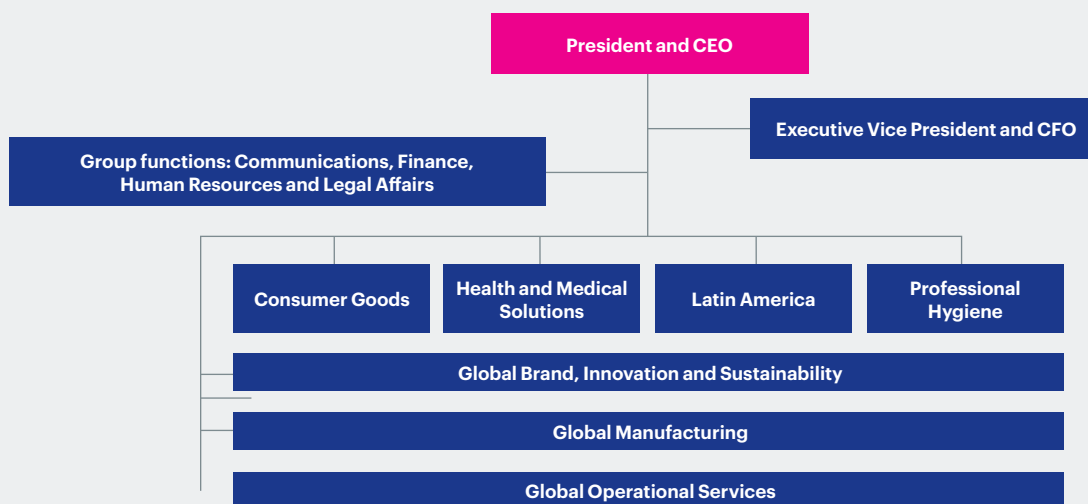
During the year, decisions were taken on restructuring measures in tissue production in Europe, North America and Latin America.

On September 28, 2018, Essity announced that the company was launching a Group-wide cost-savings program. The program is expected to generate annual cost savings of approximately SEK 900m, with full effect at the end of 2019.

On October 29, 2018, Essity announced that the company was making changes to its organizational structure and Executive Management Team.

On December 28, 2018, the Supreme Administrative Court announced its decision in a tax case in Sweden. The decision reduced Essity's reported tax expense by approximately SEK 1.1bn in the fourth quarter of 2018. Taxes paid will be refunded to Essity in the first quarter of 2019.

Organization



Acquisitions, investments and divestments

Company acquisition in Peru and Bolivia

On February 16, 2018, Familia, in which Essity has a 50% stake, acquired the remaining 50% of the company Productos Sancela del Peru with operations in Peru and Bolivia. The consideration transferred amounted to SEK 310m. Essity has consolidated Productos Sancela del Peru as a subsidiary with a non-controlling interest. Prior to the acquisition, the company was consolidated as an associate according to the equity method. The previously owned share of equity was remeasured at fair value in the amount of SEK 225m and rec-

ognized as an item affecting comparability in the income statement.

Company acquisition in Ecuador

On April 3, 2018, Familia, in which Essity has a 50% stake, acquired the company Industrial Papelera S.A. (INPAECSA) with operations in Ecuador. The consideration transferred amounted to SEK 68m.

Essity strengthens Professional Hygiene in Europe

On February 22, 2018, Essity announced the company's decision to invest in

creating a center for napkin production at the existing production facility in Altopascio, Italy. The investment will further strengthen the competitiveness of Professional Hygiene in Europe. The investment will lead to restructuring measures at multiple production facilities across Europe in the coming years. The total investments will amount to approximately SEK 590m, of which the majority is related to investments in Altopascio, Italy.

Other Group information

Parent Company

The Group's Parent Company, Essity Aktiebolag (publ), is a holding company with the main task of owning and managing shares in a number of business group companies and performing Group-wide management and administrative functions. The company's corporate registration number is 556325-5511 and it is domiciled in Stockholm, Sweden. The company's address is PO Box 200, SE-101 23 Stockholm. In 2018, the Parent Company recognized operating income of SEK 192m (367) and profit before appropriations and tax of SEK 17,102m (1,681). Investments in non-current assets totaled SEK 1m (0) 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 -1,320m (-1,239), 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

In 2018, 147,667 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 (5.75) per share or SEK 4,038m (4,038). The record date for entitlement to receive dividends is proposed as April 8, 2019.

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, can be found on pages 33–45 and 114–121 in the Board of Directors' Report. The company's business model can be found on page 11. This sustainability report for Essity Aktiebolag (publ) encompasses the entire Group. More information on non-financial accounting principles can be found in Note H1, page 114.

Guidelines for remuneration of senior executives

The Board of Directors has decided to propose to the AGM 2019 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, Executive Vice President, Business Unit President and equivalent, as well as Group Function Senior Vice President. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession and linked to the executive's responsibility and authority. The variable remuneration is to be limited and linked to the fixed remuneration, based on performance results in relation to the annual and long-term established targets. In the event of termination of employment, the notice period should normally be up to two years if termination is initiated by the company, and up to one year, when initiated by the senior executive. Severance pay should not exist. Pension benefits should, to the extent possible, only contain defined contribution pension benefits and entitle the executive to receive a pension from the age of 65. Variable remuneration is not part of pensionable income. The board of directors shall be entitled to deviate from the adopted guidelines if, in an individual case, there are special reasons for doing so. The guidelines shall not prevail over mandatory conditions under labour law or collective agreements. Neither do they apply to existing agreements."

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 80–82.

Net sales and earnings

Net sales

Essity's net sales for 2018 increased 8.5% compared with the corresponding period a year ago to SEK 118,500m (109,265). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.6%, of which volume accounted for 0.5% and price/mix for 2.1%. Organic net sales increased 0.9% in mature markets and increased 5.9% in emerging markets. Emerging markets accounted for 35% of net sales. Exchange rate effects increased net sales by 3.5%. Acquisitions increased net sales by 2.4%, of which the acquisition of BSN medical accounted for 1.8% and acquisitions relating to the increase in the shareholding in associates in Latin America accounted for 0.6%.

Earnings

Essity's adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA)¹⁾ for 2018 declined 4% (11% excluding currency translation effects and acquisitions) to SEK 12,935m (13,405). Higher prices, a better mix, higher volumes, cost savings and the acquisition of BSN medical had a positive impact on earnings. Cost savings amounted to SEK 1,040m, of which SEK 18m was related to the Group-wide cost-savings program. Higher raw material and energy costs had a negative earnings effect of SEK -4,705m, which corresponds to a negative impact on the adjusted EBITA margin of -4.2 percentage points. Furthermore, higher distribution costs had a negative impact on earnings. The acquisition of BSN medical increased profit by 2%. Acquisitions relating to the increase

in the shareholding in associates in Latin America increased profit by 1%.

Items affecting comparability amounted to SEK -1,444m (-940) and include costs of approximately SEK -1,230m related to restructuring measures at production facilities in Professional Hygiene and Consumer Tissue. Impairments in the associate Asaleo Care had an impact of SEK -280m on items affecting comparability. Restructuring costs related to the Group-wide cost-savings program had a negative impact of SEK -130m on items affecting comparability. Acquisitions relating to the increase in the shareholding in associates in Latin America positively impacted items affecting comparability by SEK 165m. A reversal of a provision for foreign tax of a non-recurring nature on non-current assets outside Sweden had a positive impact of SEK 290m on items affecting comparability. Other costs negatively impacted items affecting comparability by SEK -259m.

Financial items decreased to SEK -1,157m (-1,182). The decrease is primarily due to lower interest. Higher average net debt had a negative impact on financial items during the period.

Adjusted profit before tax¹⁾ decreased 5% (12% excluding currency translation effects and acquisitions) to SEK 11,046m (11,663).

The tax expense, excluding effects of items affecting comparability, was SEK 1,490m (2,191). The reported tax expense was reduced by about SEK 1.1bn due to a decision in a tax case in Sweden.

Adjusted profit for the period¹⁾ increased 1% (decreased 6% excluding currency

translation effects and acquisitions) to SEK 9,556m (9,472).

Profit for the period decreased 3% (10% excluding currency translation effects and acquisitions) to SEK 8,552m (8,785). Earnings per share were SEK 11.23 (11.56). The adjusted earnings per share³⁾ were SEK 13.32 (13.09).

Key figures

The Group's adjusted gross margin¹⁾ amounted to 28.2% (29.6) and the adjusted EBITA margin¹⁾ was 10.9% (12.3). Adjusted return on capital employed¹⁾ was 12.0% (14.9). Adjusted return on equity¹⁾ was 18.0% (21.3). The interest coverage ratio was 9.3 (10.1).

Summary income statement

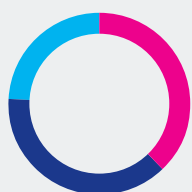
SEKm	2018	2017	2016
Net sales	118,500	109,265	101,238
Adjusted EBITA¹⁾	12,935	13,405	11,992
EBITA	11,560	12,550	9,347
Adjusted operating profit¹⁾	12,203	12,845	11,833
Items affecting comparability	-1,444	-940	-2,825
Operating profit	10,759	11,905	9,008
Financial items	-1,157	-1,182	-835
Adjusted profit before tax¹⁾	11,046	11,663	10,998
Profit before tax	9,602	10,723	8,173
Adjusted tax ^{1) 2)}	-1,490	-2,191	-4,355
Tax ²⁾	-1,050	-1,938	-3,931
Adjusted profit for the period¹⁾	9,556	9,472	6,643
Profit for the period	8,552	8,785	4,242

¹⁾ Excluding items affecting comparability.

²⁾ 2018: A decision in a tax case in Sweden reduced tax by approximately SEK +1.1bn. 2017: Includes positive tax effect of a non-recurring nature of approximately SEK +550m. 2016: Includes provision of approximately SEK -1.3bn.

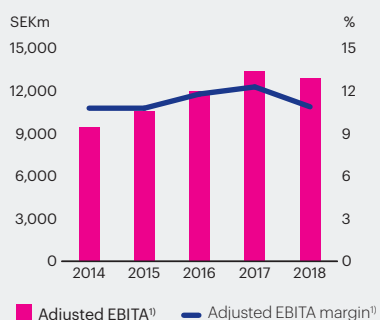
³⁾ Excluding items affecting comparability and amortization of acquisition-related intangible assets.

Net sales, share of Group



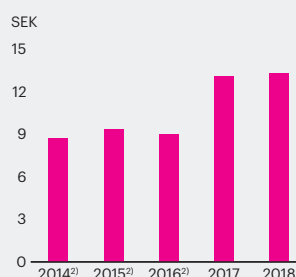
■ Personal Care, 38%
■ Consumer Tissue, 38%
■ Professional Hygiene, 24%

Adjusted EBITA¹⁾ and 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).

Cash flow and financing

The operating cash surplus amounted to SEK 18,570m (18,465). The cash flow effect of changes in working capital was SEK -971m (-740). Current capital expenditures amounted to SEK -4,357m (-3,911). Operating cash flow was SEK 12,324m (12,723).

Financial items decreased to SEK -1,157m (-1,182). The decrease is primarily due to lower interest. Higher average net debt had a negative impact on financial items during the period. Income tax payments totaled SEK 2,466m (2,971). Cash flow from current operations amounted to SEK 8,787m (8,745).

Strategic capital expenditures amounted to SEK -2,424m (-2,101). The net sum of acquisitions and divestments was SEK -626m (-26,016). Dividends to shareholders impacted cash flow by SEK -4,435m (-285). Net cash flow totaled SEK 1,307m (-18,791).

Net debt increased by SEK 1,937m compared with the same point in time last year and amounted to SEK 54,404m. Excluding pension liabilities, net debt amounted to SEK 50,263m. Net cash flow reduced net debt by SEK 1,307m. Fair value measurement of pension assets and updated

assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, increased net debt by SEK 1,042m. Exchange rate movements increased net debt by SEK 2,202m.

The debt/equity ratio was 0.99 (1.06). Excluding pension liabilities, the debt/equity ratio was 0.92 (0.99). The debt payment capacity was 25% (26). Net debt in relation to adjusted EBITDA amounted to 2.96 (2.83).

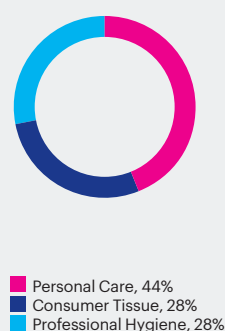
The Group's cash flow



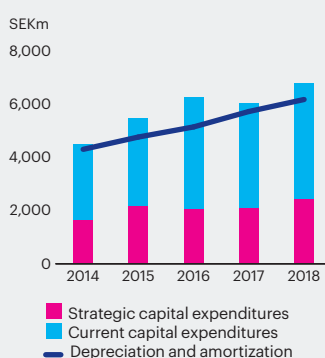
Operating cash flow statement

SEKm	2018	2017	2016
Operating cash surplus	18,570	18,465	16,759
Change in working capital	-971	-740	1,596
Current capital expenditures, net	-4,357	-3,911	-4,222
Restructuring costs, etc.	-918	-1,091	-1,102
Operating cash flow	12,324	12,723	13,031
Financial items	-1,157	-1,182	-835
Income taxes paid	-2,466	-2,971	-3,782
Other	86	175	149
Cash flow from current operations	8,787	8,745	8,563
Company acquisitions	-694	-26,045	-6,540
Strategic capital expenditures in non-current assets	-2,424	-2,101	-2,033
Divestments	68	29	369
Cash flow before dividend	5,737	-19,372	359
Private placement to non-controlling interests	5	28	435
Dividend to non-controlling interests	-397	-285	-190
Dividend	-4,038	0	0
Transactions with shareholders	0	838	-14,571
Net cash flow	1,307	-18,791	-13,967

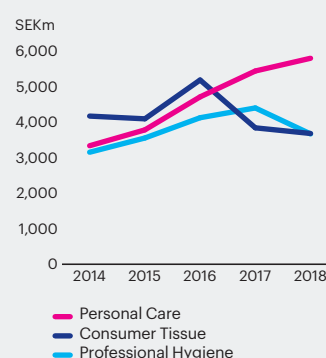
Operating cash flow, share of Group



Investments in non-current assets



Operating cash flow by business area



Financial position

Assets and capital employed

The Group's total assets increased 5% compared with the preceding year, amounting to SEK 154,266m (147,016). Non-current assets increased SEK 5,023m compared with the preceding year to SEK 112,121m (107,098), of which property, plant and equipment amounted to SEK 51,673m (48,482) and intangible assets to SEK 55,028m (53,121). Current and strategic capital expenditures in non-current assets amounted to SEK 6,781m. Total depreciation and amortization for the year was SEK 6,175m, of which amortization of acquisition-related intangible assets amounted to SEK 732m.

Current assets increased SEK 2,227m to SEK 42,145m (39,918). Working capital amounted to SEK 7,568m (5,901). Capital employed was 7% higher and totaled SEK 109,303m (102,037). 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 65,679m at year-end. In 2017, the Group's foreign net assets totaled SEK 65,389m.

Equity

The Group's equity increased by SEK 5,329m during the period, to SEK 54,899m (49,570). Net profit for the period increased equity by SEK 8,552m. Equity decreased by SEK 4,435m on account of the dividend to shareholders. Equity decreased net after tax by SEK 861m 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 increased equity by SEK 77m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 1,976m. Other items increased equity by SEK 20m.

Financing

The Group's interest-bearing gross debt amounted to SEK 54,326m (54,838) at year-end. The maturity period was 3.5 (4.3) years.

Net debt increased by SEK 1,937m compared with the same point in time last year and amounted to SEK 54,404m. Excluding pension liabilities, net debt amounted

to SEK 50,263m. Net cash flow reduced net debt by SEK 1,307m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, increased net debt by SEK 1,042m. Exchange rate movements increased net debt by SEK 2,202m.

Key figures

The debt/equity ratio was 0.99 (1.06). Excluding pension liabilities, the debt/equity ratio was 0.92 (0.99). The visible equity/assets ratio was 31% (29). The adjusted return on capital employed was 12.0% (14.9). The adjusted return on equity was 18.0% (21.3). The capital turnover rate was 1.1 (1.2). At year-end, working capital amounted to 6% (5) of net sales.

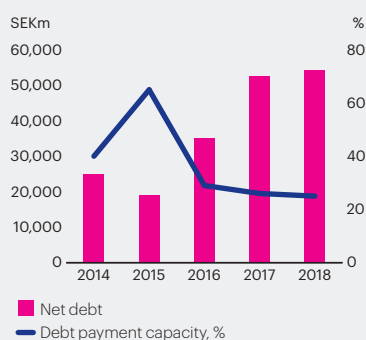
Consolidated capital employed by currency, SEKm

	2018	%	2017	%	2016	%
EUR	43,678	40	40,937	40	25,016	33
USD	20,304	19	18,020	18	14,419	19
CNY	16,865	15	15,550	15	13,402	18
MXN	5,505	5	4,621	5	4,309	6
GBP	5,325	5	5,119	5	4,306	6
Other	17,626	16	17,790	17	13,301	18
Total	109,303	100	102,037	100	74,753	100

Consolidated balance sheet

SEKm	2018	2017	2016
Intangible assets	55,028	53,121	26,918
Property, plant and equipment	51,673	48,482	47,494
Other non-current assets	5,420	5,495	3,878
Total non-current assets	112,121	107,098	78,290
Current assets	42,145	39,918	35,994
Total assets	154,266	147,016	114,284
Equity	54,899	49,570	39,580
Non-current liabilities	57,795	60,828	41,971
Current liabilities	41,572	36,618	32,733
Total equity and liabilities	154,266	147,016	114,284
Working capital	7,568	5,901	4,143
Capital employed	109,303	102,037	74,753
Net debt	54,404	52,467	35,173

Net debt and debt payment capacity

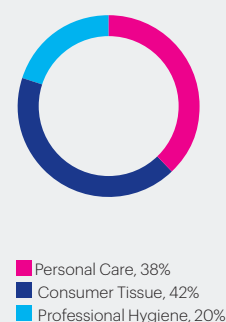


Adjusted return on capital employed and equity¹⁾



¹⁾ Excluding items affecting comparability.

Capital employed, share of Group



Risks and risk management

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

Processes for risk management

The responsibility for the management of risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to the Business Unit Presidents. The delegation scheme entails that risks are primarily managed by Essity's business units at local level, but with central coordination and follow-up. The latter is mainly achieved through the business units' continuous reporting and in the annual strategy process. Risk identification and risk management are a key part of the latter. Identified risks are classified in this process according to the likelihood of the risk becoming a reality and the potential impact it

could have on the group. The model also includes how risks shall be mitigate and followed up.

Essity's financial risk management is centralized. The Group's internal bank handles the Group's financial transactions and energy risks. The financial risks are managed in accordance with the Group's finance policy, which is decided by Essity's Board of Directors. Together with Essity's energy risk policy, the finance policy comprises a framework for financial risk management. The risks are compiled and followed up continuously.

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



Based on current knowledge, the following are deemed to be the main factors that risk having a materially negative impact on the operations:

Risks that impact Essity's ability to achieve established targets

Risk	Action
GDP trend and economic conditions	
Demand for Essity's products is affected by general macroeconomic trends and the resulting fluctuations in its customers' purchasing power and consumption patterns. Professional Hygiene is the area of Essity's operations that is most sensitive to economic movements. The healthcare sector for Incontinence Products and Medical Solutions also risks being negatively impacted by the public sector's budget situation. Sales to the retail sector, which accounts for the bulk of sales of hygiene products, may also be adversely affected by reduced purchasing power among the company's consumers.	In all operations, it is important that Essity implements a number of measures to try to manage the effects of economic movements that take place. Examples of this include measures to reduce costs, reviewing the capacity and production structure, and creating higher customer value through product innovations. Essity also works on differentiation to move toward product areas that are less sensitive to economic fluctuations. An example of solutions that can create value for Essity and its customers is Tork PeakServe in Professional Hygiene, a high-capacity dispenser for towels that is labor-saving for the customer. Sensors in public toilets, which facilitate in optimizing the work to empty waste baskets and to refill paper and soap, are another example of solutions that can create value.

Risk	Action
Environmental impact and climate change	
Essity's operations and the products used in the manufacturing process have an impact on air, water and land. Essity is subject to extensive environmental regulations in all of the countries where the company conducts operations. More stringent environmental requirements, remediation of the environment in connection with plant closures or breaches of permits could incur higher costs for the Group. Risks related to climate change and the financial implications of this have attracted increased attention. Not least as a result of the 2015 Paris Agreement and new guidelines from the TCFD (Task Force on Climate-related Financial Disclosure).	Essity's strategic framework and sustainability policy stipulate guidelines for the Group's measures within the environmental area. Environmental impact and the impact of climate change are part of the annual strategy process, which includes the identification, assessment and actions for managing these types of risks. Risks are managed, for example, through preventive work in the form of certified environmental management systems, environmental risk inspections in conjunction with acquisitions, and remediation projects in connection with plant closures. The use of energy, water, transport, production waste and raw materials is controlled using the company's Resource Management System (RMS). The data is used for internal control and follow-up of established targets. Essity also works to reduce the volume of production waste. Essity has adopted the SBTi¹⁾-approved Science-Based Targets to reduce the company's climate impact and to support the 2015 Paris Agreement. Essity works to reduce carbon emissions by, for example, making investments in renewable energy and energy-saving programs. ¹⁾ SBTi: Science Based Targets initiative
Political decisions and regulatory measures	
Essity conducts operations in a large number of different countries. In some countries, the institutional structures are more established and developed, while the political, financial, legal and regulatory systems in others are less predictable. In both cases, political changes and decisions, as well as amended legislation and regulations could have a negative impact on Essity's operations in the form of higher costs or some other obstruction. In general, the regulatory requirements imposed on Essity's operations and products are intensifying. One example of risks associated with political decisions is if the UK were to leave the EU without an agreement.	Essity works continuously to monitor, evaluate and anticipate changes in its business environment in the form of political decisions and amended regulations in the areas that are of particular importance for our operations. Essity participates in various national and international industry organizations, as well as in other types of partnerships. The aim is to gain early knowledge of and contribute actively to the development of areas that are significant to our operations. Environmental and energy issues are of particular importance to Essity. The circular economy, use of resources and more specifically, issues relating to waste, plastics, chemicals, and emissions to water and air are examples of other key areas. The public sector is both a significant customer and an important stakeholder group for Essity. The company is therefore working actively on matters relating to health and medical care, as well as care for the elderly. By complying with and contributing to the development of relevant regulations, Essity shares its experience garnered from existing systems to decision-makers in countries where new structures are being built or existing systems reformed. An example of this is the development of systems for subsidized prescription of incontinence aids in countries where such benefits were not offered in the past. Similarly, Essity monitors developments in regulations covering medical solutions. Measures adopted by the company to limit the effects if the UK leaving the EU without an agreement include an increase in inventory levels and transport capacity in the UK.
Competition	
Essity is subject to considerable competition from other producers of similar products. Essity is also exposed to the risk that alternative products and solutions with the same or similar function (substitutes) could replace the products included in Essity's range. Substitutes exist for virtually all Essity products. This may involve such products as cloth diapers or cloth rags for household or industrial cleaning, or completely different solutions to meet the needs of consumers, such as menstrual cups or electric hand dryers. Competition and the occurrence of substitutes presents the risk of a negative effect on sales and pricing of Essity's products and jeopardizes the company's market position.	Essity's focus on customer and consumer insight guides its innovation activities, ensuring that new products and services are competitive. Essity develops the company's offering to meet the needs of customers and consumers in terms of the products themselves, but also in providing these in the relevant sales channels. New solutions are developed through the company's own research and development activities in cooperation with customers, consumers, suppliers or partners. Through its processes for monitoring the business environment, Essity follows up on new players and substitutes in the market and their impact on the company. Read more about innovation on page 18.

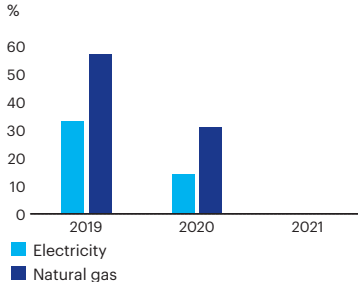
Risk	Action
Dependence on major customers and sales channels	
Essity's success is attributable to its ability to offer attractive products, services and brands and to make these available to customers and consumers. Essity's products are sold through retailers, pharmacies, online sales, distributors and resellers, with retail representing the single largest customer category. If these players are not successful in selling Essity's products, this could have a negative impact on Essity's earnings. In general, there is a consolidation trend in several of Essity's sales channels and markets – particularly in the retail trade – through mergers and purchasing alliances, which could increase dependence on individual, large customers. Digitalization is also changing customer and consumer behavior, preferences and demand.	Essity's customer structure is relatively dispersed, with customers in many different areas of business. In 2018, Essity's ten largest customers, most of them retail companies and distributors, accounted for 24% of net sales. The company works to maintain strong and long-term customer relationships in strategic customer segments, as well as building relationships with new customers. Essity is participating in the increasing digitalization trend and its impact on customers, consumers and channels, for example, through online sales. Essity also places great importance on developing processes, products and information to ensure customer satisfaction.
Production facilities	
Essity has around 90 production facilities in some 30 countries. Fires, machinery breakdowns and other types of harmful incidents in plants could lead to considerable value destruction, loss of production and income, which ultimately, could have a negative impact on Essity's market position.	From this perspective, the aim of Essity's risk management is to effectively and cost efficiently protect its employees, the environment, the company's assets and the business. Essity strives to create and retain a balance between loss-prevention activities and insurance coverage. The loss-prevention work is conducted in accordance with established guidelines that include repeated inspections by external risk engineers. Other important elements of loss-prevention activities are maintenance of production plants and machinery, staff training, and good orderliness. Essity invests continuously in loss-prevention activities to reduce its risk of damage in various ways. For example, the sites are usually protected by sprinkler systems. All wholly owned facilities are insured to replacement cost and for the loss of income. Within the EU, insurance is primarily conducted within the company's own insurance company, with external reinsurance for major damages. Outside the EU, Essity cooperates with market-leading insurance companies.
Unethical business practices	
Essity works in a large number of countries and in environments where unethical business practices and violations of human rights may occur. The risk of such business methods is deemed to be very serious. The financial consequences of violations may be very severe in the form of various sanctions and fines. Violations also risk having a negative impact on the company's reputation in the market.	Essity has a program for regulatory compliance, which aims to minimize the risk that Essity participates in or is associated with unlawful or unethical business practices or commits violations of human rights. The program is based on a Code of Conduct adopted by the Board of Directors. The Code contains policies for how the company and its employees are to behave in the workplace, in the community and in the market. Training of Essity's employees regarding the Code of Conduct takes place continuously. Within certain areas, corruption and competition regulations, Essity has an in-depth program for risk evaluation and various training courses for employees. The implementation of the regulatory compliance program is reported continuously to a committee, which includes the internal audit function and parts of the Essity management.
Employees	
To meet its targets, Essity is dependent on being able to recruit, retain and develop qualified and motivated employees.	Essity ensures access to employees with relevant competence through strategic staffing and succession planning. Essity is focusing on making the company known as an attractive employer in the markets in which it operates. Internal recruitment and rotation is facilitated through a "Job Portal", where vacant positions are advertised internally and externally. The company's ambition is that all employees should have a personal development plan focusing on both training and new challenges. Essity strives to ensure that salaries and other benefits are adapted to the market and competitive in the labor market in which the employee works. Essity is working actively to build good relationships with union organizations.

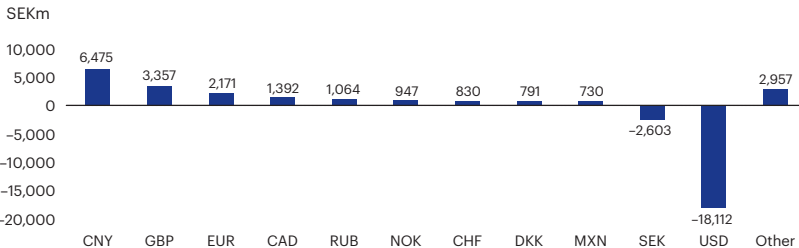
Risk	Action
Legal risks	
Legal risks comprise a number of risks in, to some extent, diverse areas. Amended legislation, violations of laws in the operations or errors in any agreements signed by Essity, are some examples of legal risks that could have negative financial implications for Essity. In certain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

Highest/lowest market prices (annual average) 2008–2018 per product

Product	Highest Price (Index)	Lowest Price (Index)	Average Price (Index)
Recovered paper – SOP (EUR)	~130	~70	~100
Recovered paper – SOP (USD)	~120	~60	~90
Pulp – NBSK (USD)	~130	~70	~100
Pulp – EUCA (USD)	~120	~60	~90
Oil-based material – Propylene (SAP) (EUR)	~110	~50	~80

Legend:
■ Recovered paper – SOP (EUR)
■ Recovered paper – SOP (USD)
■ Pulp – NBSK (USD)
■ Pulp – EUCA (USD)
■ Oil-based material – Propylene (SAP) (EUR)
— Average price for the period

Risk	Action												
Energy price 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 energy risk 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 2018, 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 93. Energy price hedges in relation to forecast consumption, December 31, 2018  <table> <caption>Energy price hedges in relation to forecast consumption, December 31, 2018</caption> <tr> <th>Year</th><th>Electricity (%)</th><th>Natural gas (%)</th></tr> <tr> <td>2019</td><td>~35</td><td>~55</td></tr> <tr> <td>2020</td><td>~15</td><td>~30</td></tr> <tr> <td>2021</td><td>0</td><td>0</td></tr> </table>	Year	Electricity (%)	Natural gas (%)	2019	~35	~55	2020	~15	~30	2021	0	0
Year	Electricity (%)	Natural gas (%)											
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2020	~15	~30											
2021	0	0											

Currency 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. <table> <tr> <th>Currency</th><th>Sales %</th><th>Costs %</th><th>Adjusted EBITA¹⁾ SEKm</th><th>Average rate 2018</th></tr> <tr> <td>EUR</td><td>39</td><td>33</td><td>11,959</td><td>10.2467</td></tr> <tr> <td>USD</td><td>15</td><td>33</td><td>-16,564</td><td>8.6731</td></tr> <tr> <td>CNY</td><td>10</td><td>5</td><td>7,267</td><td>1.3133</td></tr> <tr> <td>GBP</td><td>7</td><td>4</td><td>4,411</td><td>11.5841</td></tr> <tr> <td>MXN</td><td>4</td><td>3</td><td>1,888</td><td>0.4516</td></tr> <tr> <td>COP</td><td>3</td><td>3</td><td>550</td><td>0.0029</td></tr> <tr> <td>RUB</td><td>3</td><td>2</td><td>859</td><td>0.1389</td></tr> <tr> <td>SEK</td><td>2</td><td>5</td><td>-2,730</td><td></td></tr> <tr> <td>Other</td><td>17</td><td>12</td><td>5,295</td><td></td></tr> <tr> <td>Total</td><td>100</td><td>100</td><td>12,935</td><td></td></tr> </table> ¹⁾ Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability.	Currency	Sales %	Costs %	Adjusted EBITA ¹⁾ SEKm	Average rate 2018	EUR	39	33	11,959	10.2467	USD	15	33	-16,564	8.6731	CNY	10	5	7,267	1.3133	GBP	7	4	4,411	11.5841	MXN	4	3	1,888	0.4516	COP	3	3	550	0.0029	RUB	3	2	859	0.1389	SEK	2	5	-2,730		Other	17	12	5,295		Total	100	100	12,935		Transaction exposure Transaction exposure, resulting from exports and imports, can be hedged for a period of up to 18 months. The currencies with the greatest net volume were hedged as follows: USD 1 month, CNY 0 months and GBP 1 month. Contracted future payments for non-current assets in foreign currencies can be hedged up to the full cost. Most of Essity's business is conducted outside Sweden and therefore, transaction exposure primarily arises in currencies other than SEK. The largest exposure comprises a purchase requirement for USD and a selling requirement for CNY and GBP. The significant USD exposure is a consequence of the Group's purchase of pulp that is invoiced in USD. During the year, there was continuous hedging of, primarily, trade receivables and payables, as well as future payments of non-current assets. The majority of hedges mature during the first quarter of 2019. For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting on page 93. Forecasted net flows 2019  <table> <caption>Forecasted net flows 2019 (SEKm)</caption> <tr> <th>Currency</th><th>Net flow</th></tr> <tr> <td>CNY</td><td>6,475</td></tr> <tr> <td>GBP</td><td>3,357</td></tr> <tr> <td>EUR</td><td>2,171</td></tr> <tr> <td>CAD</td><td>1,392</td></tr> <tr> <td>RUB</td><td>1,064</td></tr> <tr> <td>NOK</td><td>947</td></tr> <tr> <td>CHF</td><td>830</td></tr> <tr> <td>DKK</td><td>791</td></tr> <tr> <td>MXN</td><td>730</td></tr> <tr> <td>SEK</td><td>-2,603</td></tr> <tr> <td>USD</td><td>-18,112</td></tr> <tr> <td>Other</td><td>2,957</td></tr> </table> 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, 2018, net debt amounted to SEK 54,404m (52,467; 35,173). Distribution by currency is shown in the table to the right. For further information relating to hedging of translation exposure, see Note E6 Derivatives and hedge accounting on page 93. Net debt distributed by currency <table> <tr> <th rowspan="2">Currency</th><th rowspan="2">Net debt SEKm</th><th colspan="3">Percentage of net debt</th></tr> <tr> <th>2018 %</th><th>2017 %</th><th>2016 %</th></tr> <tr> <td>EUR</td><td>24,917</td><td>46</td><td>46</td><td>13</td></tr> <tr> <td>GBP</td><td>8,216</td><td>15</td><td>6</td><td>3</td></tr> <tr> <td>USD</td><td>7,059</td><td>13</td><td>15</td><td>15</td></tr> <tr> <td>SEK</td><td>6,150</td><td>11</td><td>19</td><td>45</td></tr> <tr> <td>CNY</td><td>3,735</td><td>7</td><td>8</td><td>11</td></tr> <tr> <td>MXN</td><td>2,334</td><td>4</td><td>3</td><td>3</td></tr> <tr> <td>HKD</td><td>1,476</td><td>3</td><td>2</td><td>4</td></tr> <tr> <td>Other</td><td>517</td><td>1</td><td>1</td><td>6</td></tr> <tr> <td></td><td>54,404</td><td>100</td><td>100</td><td>100</td></tr> </table>	Currency	Net flow	CNY	6,475	GBP	3,357	EUR	2,171	CAD	1,392	RUB	1,064	NOK	947	CHF	830	DKK	791	MXN	730	SEK	-2,603	USD	-18,112	Other	2,957	Currency	Net debt SEKm	Percentage of net debt			2018 %	2017 %	2016 %	EUR	24,917	46	46	13	GBP	8,216	15	6	3	USD	7,059	13	15	15	SEK	6,150	11	19	45	CNY	3,735	7	8	11	MXN	2,334	4	3	3	HKD	1,476	3	2	4	Other	517	1	1	6		54,404	100	100	100
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Risk

Action

Credit

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 trade receivables

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

Financial credit risk

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

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

Credit exposure in derivative instruments is calculated as the market value of the instrument on the balance sheet date. Credit exposure in derivative instruments amounted to SEK 1,255m (1,555; 1,259), gross. Taking net calculation agreements per counterparty into consideration, credit exposure of derivatives amounted to SEK 810m (1,084; 971). At year-end, the total credit exposure was SEK 4,028m (4,964; 5,214). This exposure includes credit risk of SEK 3,081m (4,107; 4,244) for financial investments. Refer to the table below for the distribution of credit risk by category.

Financial credit exposure

SEKm	Category ¹⁾			Total
	A	B	C	
Financial assets measured at fair value through other comprehensive income.			87	87
Financial assets measured at amortized cost			50	50
Cash and bank balances	2,268	224	516	3,008
Derivate assets, net	810			810
Current investments < 3 months			73	73
Total	3,078	224	726	4,028

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

Liquidity and refinancing risk 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 1,937m in 2018. At year-end, the average maturity of gross debt was 3.5 years (4.3; 4.0). If short-term loans were replaced with drawings under long-term unutilized credit facilities, the maturity would amount to 4.2 years. Unutilized credit facilities amounted to SEK 20,554m at year-end. In addition, cash and cash equivalents totaled SEK 3,008m. For further information, see Note E2 Financial assets, cash and cash equivalents on page 90, and Note E4 Financial liabilities on page 92.

Liquidity reserve

SEKm	2018	2017	2016
Unutilized credit facilities	20,554	19,680	19,164
Cash and cash equivalents	3,008	4,107	4,244
Total	23,562	23,787	23,408

SEKm	2018	2017	2016
Net sales	118,500	109,265	101,238
Liquidity reserve ¹⁾	20%	22%	23%

¹⁾ Liquidity reserve as a percentage of net sales.

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 expenses.

Essity strives to achieve a good distribution of its interest maturity dates to avoid large debt 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 financial items decreased in 2018. The decrease is primarily due to lower interest rates. Higher average net debt had a negative impact on financial items during the period. Essity's largest funding currencies are EUR, GBP 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 26.7 months (30.1; 8.5) at year-end.

The average interest rate for the total outstanding net debt including derivatives, amounted to 2.55% (1.83; 2.26) at year-end.

Gross debt distributed by currency

Currency	SEKm
EUR	24,000
GBP	10,000
USD	8,000
SEK	6,000
CNY	5,000
MXN	4,000
HKD	3,000
PLN	2,000
AUD	1,000
Other	1,000

Materiality analysis

Essity conducts a materiality analysis among its stakeholders every second year. The analysis provides insight into the subject areas that are significant to the company's various stakeholders and forms the basis of the strategy and operations.

The most recent materiality analysis was conducted in 2017, when about 1,000 customers, consumers, suppliers, investors, media representatives, representatives of the community and employees responded to the online survey.

The selection of subject areas to be included in the materiality analysis was guided by such frameworks and 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 a total of 21 areas.

The respondents were able to select the ten areas they considered to be most important for Essity. The order of priority the respondents 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.

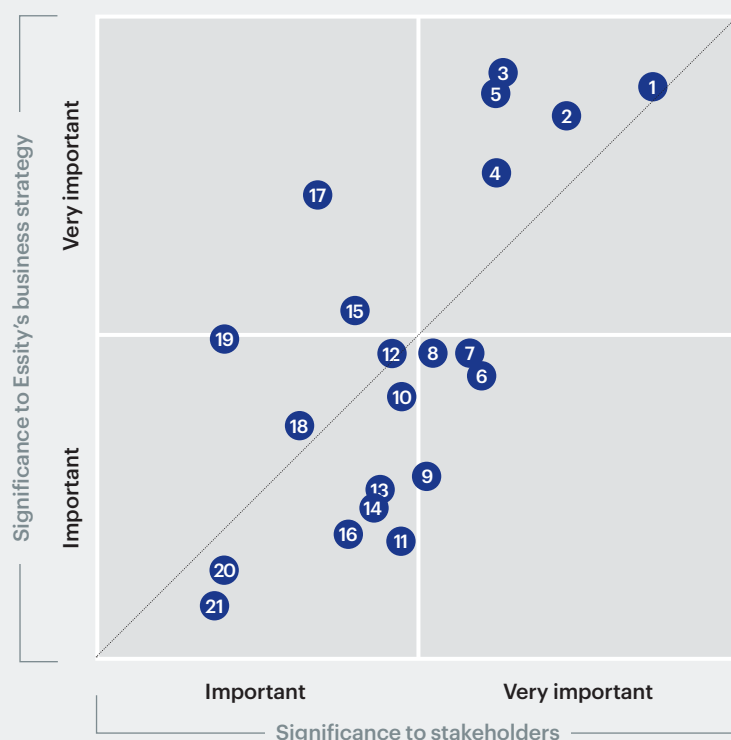
Both stakeholders and Essity believe that business ethics, innovation, customer and consumer satisfaction, health and

safety, and strong brands are the most material areas.

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 areas are numbered according to how high they were ranked in the survey and next to the subject area, there is also a reference to where you can read more in this year's Annual and Sustainability Report.

A comprehensive account of all 21 areas included in the survey can be found at www.essity.com/sustainability.

Essity's materiality analysis



The factors considered most material to Essity's stakeholders

		Read more on page
Business ethics	1	120
Innovation	2	115
Customer and consumer satisfaction	3	17
Health and safety	4	121
Brands	5	1, 18
Human rights	6	120
Product safety	7	42
Openness	8	127–128
CO ₂ emissions	9	116
Resource efficiency	10	116
Water use and water purification	11	117
Corporate governance	12	46–47
Fiber Sourcing	13	115–116
Value chain efficiency	14	119
Market positions	15	20–21
Post-consumer waste	16	118
Human capital	17	15
Risk management	18	33–38
Digitalization	19	9, 17
Distribution and transport	20	119
Tax	21	78–79

Sustainability governance

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

Essity's objective is to generate maximum economic value and at the same time, live up to environmental and social expectations. Economic strength and stability is a prerequisite for environmental investments and socially responsibility

that generate long-term financial growth. Accordingly, Essity has established a number of policies and management systems to achieve and maintain the company's economic value creation with respect to environmental and social 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 Code of Conduct is the main steering document concerning social responsibility. This defines areas where the company can successfully contribute to social sustainable development in the Group's operations, and for various stakeholders along the

value chain. In the markets where Essity operates, social value is generated for individuals and society through the company's products and services for hygiene and health. In addition, the company creates jobs and pays the right tax and fees in the countries where the company operates. Essity's overall environmental management approach is to enhance the operations' positive contribution to the environment, while minimizing negative environmental impact.

Essity's Executive Management Team bears the overall responsibility for the control of Essity's business in the field of sustainability. Changes were implemented to the company's organizational structure during the year. Essity's unit

Summary of strategic components of Essity's sustainability governance

Strategic components	Generate increased shareholder value through profitable growth	Enable more people every day to enjoy a fuller life	Contribute to a sustainable and circular society	Enable our employees to realize their full potential, as part of one winning team
Policies (and guidelines)	- Sustainability Policy - Code of Conduct - Anti-bribery and Corruption policy - Tax Policy	- Sustainability Policy - Code of Conduct - Anti-bribery and Corruption policy - Global Supplier Standard - Community Relations Instruction	- Sustainability Policy - Code of Conduct - Global Supplier Standard - Fiber Sourcing Policy - Tax Policy	- Sustainability Policy - Code of Conduct - Anti-bribery and Corruption policy - Health and Safety Instruction - Diversity Policy - Remuneration Policy
Targets and KPIs	- Financial targets - People and nature innovations	- Supplier Code of Conduct – Global Supplier Standard - Hygiene solutions	- Climate and energy: Science-Based Targets - Fiber Sourcing - Water - Production waste - Packaging - Innovation processes	- Employee Health and Safety - Code of Conduct
Management systems, programs and certifications	- Innovation process - International Financial Reporting Standards (IFRS) - Life cycle management	- Innovation process - Sedex	- ISO 9001 - ISO 14001 - Resource Management System (RMS) - ESAVE (energy) - MSAVE (material) - Chain of Custody certification, FSC and PEFC - Life cycle assessments (LCAs)	- OHSAS 18001 - Global system for performance review and development planning - Essity Leadership Platform
External charters or initiatives	- UN SDGs - UN Global Compact - OECD Guidelines for Multinational Enterprises	- UN SDGs - UN Global Compact - OECD Guidelines for Multinational Enterprises - UN Guiding Principles on Business and Human Rights	- UN SDGs - UN Global Compact - OECD Guidelines for Multinational Enterprises - Science Based Targets initiative - Ellen MacArthur Foundation	- UN SDGs - UN Global Compact - OECD Guidelines for Multinational Enterprises - UN Guiding Principles on Business and Human Rights - European Works Council (EWC) - IndustriALL - ILO Core Conventions

with global responsibility for customer and consumer brands and innovation was given greater responsibility and now also includes sustainability and public affairs. The unit is called Global Brand, Innovation and Sustainability. The head of the unit reports to the CEO and is included in the Executive Management Team. Innovation and product development are crucial for pursuing and further strengthening Essity's sustainability efforts. The sustainability reporting department has been transferred to the Group function Finance and the Compliance & Ethics department reports to the Group function Legal Affairs. In close collaboration with the business unit presidents, the approved strategy and objectives are broken down into specific targets and activities to ensure delivery on the Group's objectives and business plans. Responsibility for implementation rests with the business units.

The purposes of Essity's Compliance Council include monitoring compliance with Essity's Code of Conduct.

A number of committees and networks operate horizontally across the Group's different business units to guarantee a consistent approach. Read more about this at www.essity.com/sustainability.

Regulatory frameworks and assurance

Assurance

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

External regulations and internal steering documents

The regulations most relevant to Essity's sustainability governance 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's Code of Conduct is the Group's steering document for responsible business operations. All of the Group's employees are subject to the Code of Conduct, which is based on 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. Systematic activities, such as risk analyses, regular training, audits and other monitoring processes are in place to ensure compliance with the Code. Essity also uses the Supplier Ethical Data Exchange (Sedex) tool to make risk assessments of its production units. Sedex is a global database, in which companies share information about their production units with their customers. The information applies to the areas of labor standards, health and safety, the environment and business ethics.

All employees are regularly trained in the Code of Conduct, including human rights. In addition to this, the Code of Conduct is included in all onboarding programs across the company. Essity offers its employees a number of internal channels to report violations of legislation or the Code of Conduct. Employees also have the opportunity to use a whistleblower system managed by an external party. There is also, wherever the law permits, a possibility to report breaches anonymously. The external whistleblower system is currently available for use in some 30 countries. Essity expects its joint-venture companies to implement a Code of Conduct and guidelines equivalent to those stipulated in Essity's Code of Conduct.

The company's Code of Conduct and anticorruption policy represent the most important steering documents in the area of anticorruption. An evaluation and risk analysis of the company's anticorruption program is conducted each year. Employ-

ees in particularly vulnerable positions, as buyers and sellers, must undergo special anticorruption training, both online and through classroom instruction.

Essity's approach for ensuring respect for human rights in conjunction with the company's operations is based on the UN's Guiding Principles on Business and Human Rights (UNGPR). In accordance with this framework, due diligence audits are conducted regarding the management of the company's impact on human rights. Essity has assessed the risks and impact regarding human rights using a Group-wide risk assessment that identified three main risk areas:

- Labor-related risks, including occupational health and safety, discrimination, forced labor and right to equal pay for equal work in Essity's direct and indirect operation (supply chain).
- Land and water-related risks attributable to the sourcing of timber, fiber and pulp – indigenous communities' rights should be given particular consideration where appropriate.
- Risks attributable to the waste generated in conjunction with the use of Essity's products and how that affect people and their environment.

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

Essity has established a position paper, in which the company explains its view on the following areas: animal testing, flushable products, genetically modified organisms (GMO), palm oil, tissue fiber and triclosan (biocide). The position papers are available at www.essity.com/sustainability.

Compliance and monitoring

Essity's Compliance & Ethics unit is responsible for ensuring that applicable steering documents, training and systems are in place to ensure that the company meets internal and external Code of Conduct requirements. The function also manages the company's whistleblower service.

Essity's internal audit unit monitors compliance with the Code of Conduct through audits. The operations to be audited are determined by such factors as the social and environmental risks in

the country of operation or whether 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.

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.

Enable more people every day to enjoy a fuller life

Sustainable solutions for customers and consumers

Essity has a system for handling complaints from customers and consumers. Essity always seeks to compensate dissatisfied 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 customer and consumer insight and the knowledge gathered is transferred to the organization.

Essity's innovation process originates in an understanding of a customer or consumer need. The process is divided into four phases: feasibility, development, capacity and launch. Read more at www.essity.com/sustainability.

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 that have led to further collaboration or product launches.

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

Responsible sourcing involves seeking high-quality raw materials that are safe from both an environmental and social perspective. 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 products and services are defined as innovative, safe, environmentally and socially sound products, packaging and services. Essity's innovations are developed based on the company's three sustainability platforms of "well-being", "more from less" and "circularity". It is essential to optimize products, packaging and services during use to reduce consumption and waste.

The company 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. The company supplements these ISO standards with 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 impact 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 the environment, meaning the product's carbon footprint, acidification of rivers and lakes, and eutrophication of land or water systems.

Essity follows strict requirements and procedures to ensure that all materials in the company's products are safe for consumers, employees and the environment. The company has global product guidelines in place for all products to ensure that they are safe for their intended purpose. Product safety requirements are a key component of Essity's Global Supplier Standard, and the company works closely with its suppliers to ensure these are met. Only chemicals that meet Essity's stringent safety requirements are used. Their potential impact on employees, customers, consumers and the environment is evaluated continuously.

Essity complies with all prevailing laws and regulations that apply to the company's products.

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 the company's efforts are related to hygiene and health, and are often directed at women and children. Examples of Essity's community relations are available at www.essity.com/sustainability.

Contribute to a sustainable and circular society

Essity's objective is to develop products and services for a sustainable and circular society. This is achieved by reducing inefficient volume consumption, developing products with smarter design and quality material and by continuously optimizing resource efficiency in the value chain. Increasing the use of renewable and recycled material is part of the strategy. Renewable fresh or recycled fiber is used today in Essity's tissue products. The proportion of renewable and recycled plastics in the company's packaging will increase over the coming years. The goal is that all packaging is recyclable by 2025.

Waste management of products is a common responsibility for Essity and customers and consumers. Tissue products comprise renewable fibers that contribute to renewable energy through combustion. Thanks to their biodegradability, they are well suited to composting and digestions. Compostability is based on tests accord-

ing to existing composting standards to ensure that all requirements are met. In the Tork PaperCircle pilot project, Essity is working to recycle used paper hand towels that are returned to the tissue plant and used to make new products.

For Essity's 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. Essity is working proactively with external partners to assess alternatives for recycling, including a pilot project in the Netherlands where Essity, together with an external party, is developing methods for recycling baby diapers and incontinence products.

Climate and energy

Essity has adopted Science-Based Targets for the reduction of greenhouse gas emissions. These targets encompass energy, electricity, suppliers, transportation and waste. The Science Based Targets initiative is a collaboration 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 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.

ESAVE, which the company initiated back in 2003, 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 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 resource efficient by design and ESAVE is part of the planning criteria.

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.

Water

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

Supply chain management

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 concerning Essity's expectations of its suppliers with regard to human rights, employee relations, and health and safety – Essity's Supplier Code of Conduct.

As with its own production units, Essity requires suppliers to perform a self-assessment of health and safety, labor standards, the environment and business ethics in the global Sedex database and to share their status. The answers are used for risk assessments. This is part of Essity's process with 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. Alongside Sedex, other sources are used to support the risk assessment.

Purchases from suppliers in countries classified as high-risk countries according to the Maplecroft Human Rights Index are audited with a specific focus on parameters such as 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.

Essity requires documented Chain of Custody from suppliers of products that

may contain potential conflict minerals. This mainly applies to paper dispensers for public bathrooms with electronic components containing metals whose origins are to be reported using the Conflict Minerals Reporting Template from the Responsible Minerals Initiative.

Some of Essity's products contain cotton fiber. The volumes are limited but since cotton agriculture in certain countries is associated with social risks, Essity pays particular attention to its cotton suppliers. Essity's ambition is that all purchased cotton is to be part of a recognized program for sustainable cotton. Essity is a member of the Better Cotton Initiative (BCI), one of the world's largest sustainability programs for cotton, which is the preferred program for sustainable cotton, though other programs, for example, organic cotton programs, are accepted.

Fiber sourcing

Essity's target is that all raw materials based on fresh wood fiber in the company's products are to be certified either in

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

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

Essity has a global fiber sourcing policy in place and a shared business system – Essity's Global Fiber Database (GFDB) – for the assessment and purchase of fiber in compliance with Essity's targets for purchasing fresh wood fiber. The database includes all of the Group's pulp, recovered fiber and alternative fiber suppliers. This database provides the purchasing function, environmental department, R&D department and production facilities with fast and easy access to important information about suppliers: certification status, region of supply, wood species, pulp specifications and bleaching methods. Essity can thereby ensure the legal requirements for traceability. The company's R&D department can check the availability of a certain raw material and the sales organization can show customers exactly what has been purchased.

Essity requires fresh fiber suppliers to guarantee that they have robust systems and documented procedures in place to ensure traceability and compliance throughout the supply chain. Essity's fresh fiber sourcing policy includes support to other potential non-certified suppliers in their transition to third-party certification. Essity also conducts its own audits of suppliers' systems and sometimes employs external parties to perform additional surveys of suppliers. The audits are based on Essity's global fiber sourcing policy and Essity's Global Supplier Standard, which play a key role in contracts with suppliers. The supplier standard requires all suppliers to work with quality, environment, product safety, the Code of Conduct and social sustainability.

Distribution and transportation

Essity is working to reduce emissions and the environmental impact of transportation and has implemented a new Transport Management System to enhance the

efficiency of transportation by further increasing the fill ratio, reducing distances driven and prioritizing transport means with less environmental impact. Essity is continuously reviewing its distribution network in order to reduce transport distances and strengthening purchasing procedures with a focus on using the most modern and environmentally friendly transport means. The company is testing new technologies that can reduce fuel consumption together with its freight forwarders. The company is taking part in local collaboration projects, such as Lean & Green and FREIGHT21 to cut transport emissions. Essity is also test driving trucks with a larger cargo volume to reduce the number of trips needed to transport tissue.

Shipping is mainly used for pulp fiber. Essity continuously monitors shipping companies to ensure that they comply with applicable environmental standards. For transportation between the port and plant, Essity uses barges and rail transport wherever possible. Since rail transport is a carbon-efficient alternative, it is a prioritized transport means for Essity. Restrictions in the rail network and lead times mean Essity requests that its suppliers use rail to the greatest possible extent, supplemented by truck transport. For distances exceeding 500 km, Essity prioritizes that suppliers use several different modes of transport to minimize the environmental impact.

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

Essity offers its employees development opportunities and remuneration based on market rates comprising salary, pension and other benefits. The company follows local remuneration structures, provided they do not conflict with internationally established rules for minimum wages and reasonable compensation.

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

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

Essity endeavors to provide its employees with efficient and flexible opportunities to perform their duties. Through the company's working from home policy, Essity is leveraging modern technology and new working methods that allow employees, whenever necessary, to perform their duties outside the ordinary workplace. This offers increased flexibility for both employees and employer. Periodically working from home could be one approach to achieve a better balance between work and private life and strengthen the company's position as an attractive employer.

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

Transparent communication is fundamental to the trust between Essity and its employees, as well as their representatives. Essity recognizes the right of each employee to join unions and to partake in union activities. The European Works Council (EWC) represents about 18,000 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 that represents 50 million workers in 140 countries in the mining, energy and manufacturing sectors. 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.

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 other employment and/or education, opportunities for early retirement or other financial incentives.

Health and safety

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.

Essity has a Group Health and Safety Instruction. The Group's governance system encompasses risk assessment, training, targets and monitoring. All Essity's facilities have procedures in place to increase workplace safety.

Reliable near miss and accident reporting is key; it is vital that Essity analyzes both serious and less serious occurrences to ensure that they are not repeated. Essity has a reporting system that employees use to report accidents and near misses, meaning events that could have led to an accident. The system offers the company good opportunities to perform risk assessments, analyze and improve working methods, and continuously monitor performance.

In the event of a critical incident, information is communicated within the entire Group, enabling all units to gain access to the conclusions and learn from the occurrence.