

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

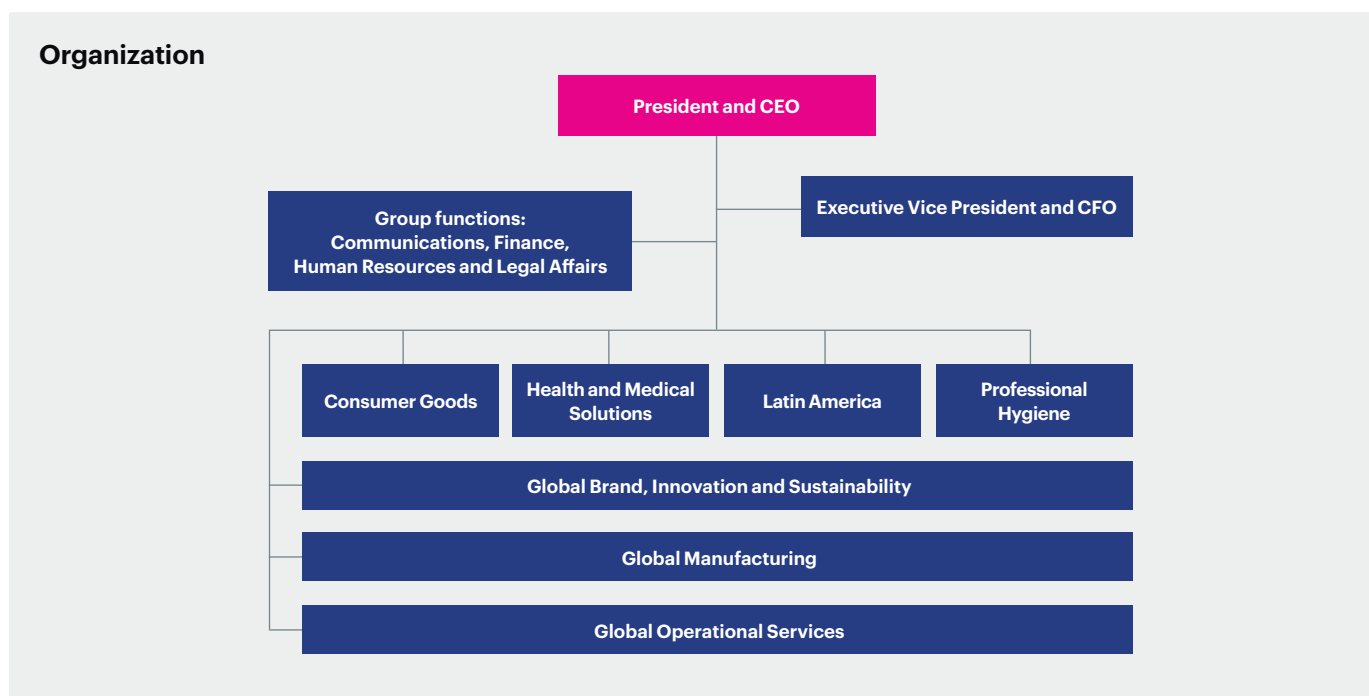
Essity exerts an influence on the Group company Vinda, a listed Asian hygiene company in which Essity is a majority shareholder, through board representation.

Events during the year

Essity took a decision to invest approximately SEK 400m in an integrated facility for the production of pulp based on alternative fibers from plant-based agricultural by-products.

Essity exited the Baby Care segment in Turkey through the divestment of its 50% share of the jointly owned company SCA Yildiz.

The Group-wide cost-savings program, which was launched in September 2018, has been concluded and at the end of 2019 savings amounted to slightly above SEK 900m on an annualized basis.



Acquisitions, investments and divestments

Divestment of jointly owned company in Turkey

In 2019, Essity divested its 50% stake in the jointly owned company SCA Yildiz in Turkey to the other part owner, Yildiz. SCA Yildiz is primarily active in Baby Care products. In 2018, the company reported net sales of SEK 364m (TRY 197m). The divestment resulted in a currency-related loss of approximately SEK 150m, which

was recognized as an item affecting comparability in the third quarter of 2019. This did not affect cash flow or shareholders' equity. The transaction was finalized on July 12, 2019.

Essity will retain a presence in Turkey through the company's wholly owned Professional Hygiene, Incontinence Products and Medical Solutions operations.

Investments in sustainable alternative fiber technology

On May 23, 2019, Essity announced the company's decision to invest approximately SEK 400m in an integrated facility for the production of pulp based on alternative fiber from plant-based agricultural by-products. The investment is taking place at Essity's tissue production plant in Mannheim, Germany.

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 2019, the Parent Company recognized operating income of SEK 209m (192) and profit before appropriations and tax of SEK 4,098m (17,102). Investments in property, plant and equipment totaled SEK 14m (1) 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 -1,485m (-1,320), corresponding to about 1.2% 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 2019, 58,129 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 an increase in the dividend of 9% to SEK 6.25 (5.75) per share or SEK 4,390m (4,038). The record date for entitlement to receive dividends is proposed as April 6, 2020. The Board is of the opinion that the company's and the Group's equity after the proposed dividend is sufficiently high in relation to the nature, scope and risks of the operations, solvency requirements, liquidity and financial position and provides scope for the company and the Group to fulfill its obligations and conduct desirable investments.

Sustainability report

Essity's statutory sustainability report, in accordance with the requirements of the Swedish Annual Accounts Act, can be found on pages 34–45 and 114–121 in the Board of Directors' Report. The company's business model can be found on pages 12–13. 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

Guidelines agreed by the most recent AGM and a description of the company's application of these can be found in Note C2 on pages 80–81.

Following changes to statutory requirements for the content of the guidelines, the Board has decided to propose the

following new guidelines to the 2020 AGM concerning remuneration of senior executives in the Essity Group:

"These guidelines shall govern remuneration to directors, the President, vice presidents and other senior executives. The guidelines do not include remuneration decided upon by the General Meeting.

Remuneration principles

Successful implementation of the company's business strategy and the fostering of the company's long-term interests, including its sustainability, require that the company is able, through competitive remuneration on market terms, to recruit, incentivize and retain skilled employees. The total remuneration package must therefore be on market terms and competitive on the executive's field of profession, and must be related to the executive's responsibilities, powers and performance. The remuneration may comprise fixed salary, variable remuneration, other benefits and pension. The company's business strategy is presented in the company's Annual and Sustainability Report.

Variable remuneration

Variable remuneration shall be based on results relative to established short-term (one year) and long-term financial targets, targets which contribute thereto or to the performance of the company's share. Remuneration shall be aimed at promoting the company's business strategy and long-term interests, including its sustainability.

Furthermore, variable remuneration shall be paid as cash remuneration and shall not be included in the basis for pension computation. The short-term element shall not exceed 100 per cent of annual fixed salary and the long-term element shall not exceed 50 per cent of annual fixed salary.

Short-term performance targets shall include organic growth, product development, earnings, cash flow, capital efficiency, sustainability, return, individual targets or a combination thereof.

Long-term performance targets shall be linked to the performance of the company's class B share measured as TSR index (Total Shareholder Return) compared with MSCI Household products Index, Consumer staples, which includes shares of competing companies, over a three-year period, where maximum outcome requires that the performance of the Essity share exceeds the benchmark index by more than 5 per cent over a multi-year period. Payment of cash remuneration for achieved long-term performance targets shall also be subject to a requirement that one-half of such paid remuneration after tax shall be used for investment by the recipient in Essity shares. Such shares may not be divested during a period of three years from the date of purchase; among other things, to create a shared ownership interest between the participants in the program and the shareholders.

The company shall have the possibility to withhold payment of variable remuneration where necessary and possible according to law, provided there are special reasons for so doing and such a measure is necessary to meet the company's long-term interests, including its sustainability. Furthermore, the company shall have the possibility provided by law to demand repayment of any variable remuneration paid based on erroneous grounds.

Pension and other benefits

Pension benefits shall be contribution-defined, and the annual premium shall not exceed 40 per cent of the fixed annual salary. The retirement age shall normally be 65.

Other, lesser benefits may include medical insurance, company car, fitness allowance as well as membership and service fees, training/education and other support.

A notice of termination period of not more than two years shall apply upon termination of the employment relationship where the termination is initiated by the company, and of not more than one year where the termination is initiated by the executive. There shall be no severance pay.

Decision-making process and reporting

Matters relating to remuneration to senior executives shall be addressed by the Board's Remuneration Committee and, with respect to the President, decided upon by the Board. The duties of the Remuneration Committee shall also include preparing board decisions regarding proposals for guidelines for remuneration to senior executives, performing oversight as well as monitoring and assessing the application thereof. When the Board or the Remuneration Committee addresses and decides on remuneration-related matters, senior executives may not be present insofar as the matter relates to them and, with respect to the calculation of variable remuneration, an audit certificate must be obtained before any decision is taken regarding payment. In the preparation of the remuneration guidelines, consideration has been given to salary and employment conditions for the company's other employees, such as information regarding total remuneration, components of the remuneration as well as the increase in

remuneration and the rate of increase over time, and the company's equality of opportunity policy.

The Board shall prepare a remuneration report.

Application of, and deviation from, the guidelines

The Board may decide to temporarily deviate from the guidelines, wholly or in part, if there are special reasons for so doing in an individual case and deviation is necessary to satisfy the company's long-term interests, including its sustainability. The duties of the Remuneration Committee include preparing board decisions on remuneration issues, including decisions regarding deviations from the guidelines. With respect to employment relationships governed by rules other than Swedish rules, appropriate adjustments shall take place with respect to pension benefits and other benefits to ensure compliance with such rules or local practice, whereupon the overarching purpose of these guidelines shall be attained as far as possible. The guidelines shall not take precedence over mandatory terms or employment law legislation or collective agreements. Nor shall they apply to already executed agreements.

For more information about the company's application of applicable remuneration guidelines, see the note entitled "Remuneration of senior executives" in the company's Annual and Sustainability Report.

These guidelines shall apply commencing the 2020 Annual General Meeting until further notice."

For information on the company's calculated expenses for remuneration of senior executives, see Note C2 on pages 80–81.

Net sales and earnings

Net sales

Essity's net sales for 2019 increased 8.8% compared with the corresponding period a year ago to SEK 128,975m (118,500). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.5%, of which volume accounted for 2.3% and price/mix for 2.2%. Organic net sales increased 2.1% in mature markets and increased 9.1% in emerging markets. Emerging markets accounted for 37% of net sales. Exchange rate effects increased net sales by 4.4%. Acquisitions in Latin America increased net sales by 0.1%. The divestment of the jointly owned company SCA Yildiz in Turkey reduced net sales by 0.2%.

Earnings

Essity's adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA)¹⁾ increased 22% (16% excluding currency translation effects, acquisitions and divestments) in 2019 to SEK 15,840m (12,935). Higher prices, a better product mix, higher volumes, cost savings and lower raw material costs had a positive impact on earnings. Cost savings amounted to SEK 1,093m, of which SEK 637m was related to the Group-wide cost-savings program. Stock revaluations, due to lower raw material prices, and higher distribution costs had a negative impact on earnings. Investments to increase growth resulted in higher sales and marketing costs.

Items affecting comparability amounted to SEK -713m (-1,444) and include costs of SEK -409m related to restructuring costs for the Group-wide cost-savings program. The divestment of the 50% stake in the jointly owned company SCA Yildiz in Turkey resulted in a currency-related loss of SEK -149m that did not affect cash flow or shareholders' equity. Other costs negatively impacted items affecting comparability by SEK -155m.

Financial items increased to SEK -1,309m (-1,157). The increase is primarily related to higher interest and higher average net debt, mainly due to the new accounting standard for leases.

Adjusted profit before tax¹⁾ increased 25% (19% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 13,753m (11,046).

The tax expense, excluding effects of items affecting comparability, was SEK 2,987m (1,490).

Adjusted profit for the period¹⁾ increased 13% (7% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 10,766m (9,556).

Profit for the period increased 19% (13% excluding currency translation effects, acquisitions and divestments) to SEK 10,212m (8,552). Earnings per share were SEK 13.12 (11.23). The adjusted earnings per share³⁾ were SEK 14.69 (13.32). Profit for the period in 2018 was positively affected by a decision in a tax case in Sweden that reduced the tax cost by approximately SEK 1.1bn.

Key figures

The Group's adjusted gross margin¹⁾ amounted to 29.5% (28.2) and the adjusted EBITA margin¹⁾ was 12.3% (10.9). Adjusted return on capital employed¹⁾ was 13.8% (12.0). Adjusted return on equity¹⁾ was 18.4% (18.0). The interest coverage ratio increased to 11.0 (9.3).

Summary income statement

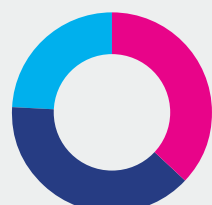
SEKm	2019	2018	2017
Net sales	128,975	118,500	109,265
Adjusted EBITA¹⁾	15,840	12,935	13,405
EBITA	15,127	11,560	12,550
Adjusted operating profit¹⁾	15,062	12,203	12,845
Items affecting comparability	-713	-1,444	-940
Operating profit	14,349	10,759	11,905
Financial items	-1,309	-1,157	-1,182
Adjusted profit before tax¹⁾	13,753	11,046	11,663
Profit before tax	13,040	9,602	10,723
Adjusted tax ^{1) 2)}	-2,987	-1,490	-2,191
Tax ²⁾	-2,828	-1,050	-1,938
Adjusted profit for the period¹⁾	10,766	9,556	9,472
Profit for the period	10,212	8,552	8,785

¹⁾ Excluding items affecting comparability.

²⁾ 2019: A revaluation of deferred tax reduced tax by SEK +253m. 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.

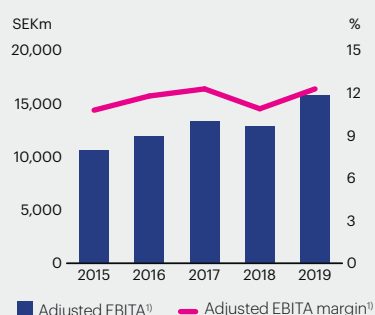
³⁾ Excluding items affecting comparability and amortization of acquisition-related intangible assets.

Net sales, share of Group



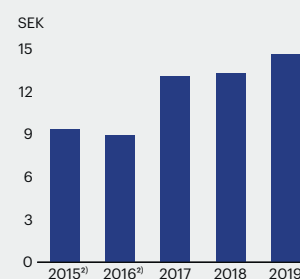
Personal Care, 37%
Consumer Tissue, 39%
Professional Hygiene, 24%

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 and 2015 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 22,932m (18,570). The cash flow effect of changes in working capital was SEK 359m (–971). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK –5,707m (–6,781). Operating cash flow before investments in operating assets through leases amounted to SEK 16,090m (9,900). Investments in operating assets through leases amounted to SEK –451m (0). Operating cash flow was SEK 15,639m (9,900).

Financial items increased to SEK –1,309m (–1,157). The increase was mainly related to higher interest and higher average net debt, primarily due to a new accounting standard for leases. Income tax payments totaled SEK –1,130m

(–2,466). A decision in a tax case in Sweden reduced the tax payment by approximately SEK 1.1bn.

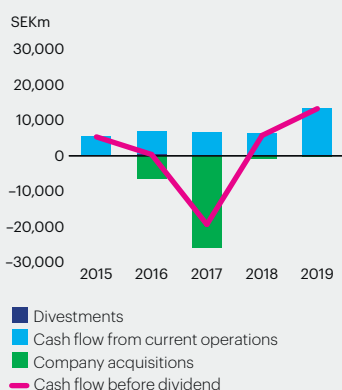
The net sum of acquisitions and divestments was SEK 77m (–626). Dividends to shareholders impacted cash flow by SEK –4,374m (–4,435). Net cash flow totaled SEK 8,915m (1,307).

Net debt decreased by SEK 3,464m during the year and amounted to SEK 50,940m. Excluding pension liabilities, net debt amounted to SEK 47,915m. The new accounting standard for leases increased net debt by SEK 3,786m. Net cash flow reduced net debt by SEK 8,915m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value

measurement of financial instruments, reduced net debt by SEK 487m. Exchange rate movements increased net debt by SEK 1,718m. Investments in non-operating assets through leases increased net debt by SEK 434m.

The debt/equity ratio was 0.81 (0.99). Excluding pension liabilities, the debt/equity ratio was 0.76 (0.92). The debt payment capacity was 38% (25). Net debt in relation to adjusted EBITDA amounted to 2.25 (2.96).

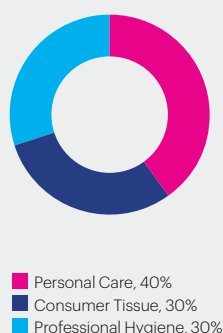
The Group's cash flow



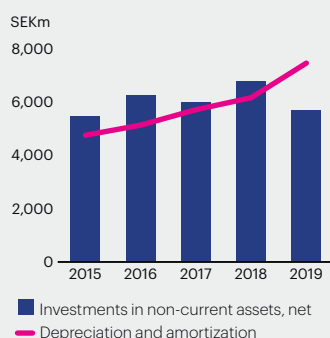
Operating cash flow statement

SEKm	2019	2018	2017
Operating cash surplus	22,932	18,570	18,465
Change in working capital	359	–971	–740
Investments in non-current assets, net	–5,707	–6,781	–6,012
Restructuring costs, etc.	–1,494	–918	–1,091
Operating cash flow before investments in operating assets through leases	16,090	9,900	10,622
Investments in operating assets through leases	–451	0	0
Operating cash flow	15,639	9,900	10,622
Financial items	–1,309	–1,157	–1,182
Income taxes paid	–1,130	–2,466	–2,971
Other	8	86	175
Cash flow from current operations	13,208	6,363	6,644
Company acquisitions	–143	–694	–26,045
Divestments	220	68	29
Cash flow before dividend	13,285	5,737	–19,372
Private placement to non-controlling interests	4	5	28
Dividend to non-controlling interests	–336	–397	–285
Dividend	–4,038	–4,038	0
Transactions with shareholders	0	0	838
Net cash flow	8,915	1,307	–18,791

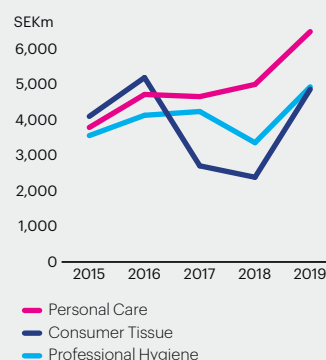
Operating cash flow, share of Group



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 162,295m (154,266). Non-current assets increased SEK 8,193m compared with the preceding year to SEK 120,314m (112,121), of which property, plant and equipment amounted to SEK 56,900m (51,673) and intangible assets to SEK 55,763m (55,028). Investments in non-current assets, net, amounted to SEK 5,707m. Total depreciation and amortization for the year was SEK 7,477m, of which amortization of acquisition-related intangible assets amounted to SEK 778m.

Current assets totaled SEK 41,981m (42,145). Working capital amounted to SEK 6,782m (7,568). Capital employed was 4% higher and totaled SEK 113,741m (109,303). The distribution of capital employed per currency is shown in the table below.

Equity

The Group's equity increased by SEK 7,902m during the period, to SEK 62,801m (54,899). Net profit for the

period increased equity by SEK 10,212m. Dividends to shareholders of SEK 4,374m reduced equity. Equity increased net after tax by SEK 536m as a result of fair value measurement of pension assets and updated assumptions and assessments that affect the valuation of the pension liability. Fair value measurement of financial instruments reduced equity by SEK 447m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 1,954m. Other items increased equity by SEK 21m.

Financing

The Group's interest-bearing gross debt amounted to SEK 48,191m (54,326) at year-end. The maturity period was 3.1 (3.5) years.

During the year, net debt decreased year-on-year by SEK 3,464m and amounted to SEK 50,940m. Excluding pension liabilities, net debt amounted to SEK 47,915m. The new accounting standard for leases increased net debt by SEK

3,786m. Net cash flow reduced net debt by SEK 8,915m. Fair value measurement of pension assets and updated assumptions and assessments that affect measurement of the net pension liability, together with fair value measurement of financial instruments, reduced net debt by SEK 487m. Exchange rate movements increased net debt by SEK 1,718m. Investments in non-operating assets through leases increased net debt by SEK 434m.

Key figures

The debt/equity ratio was 0.81 (0.99). Excluding pension liabilities, the debt/equity ratio was 0.76 (0.92). The visible equity/assets ratio was 33% (31). Adjusted return on capital employed and equity was 13.8% (12.0) and 18.4% (18.0) respectively. The capital turnover rate was 1.1 (1.1).

At year-end, working capital amounted to 5% (6) of net sales.

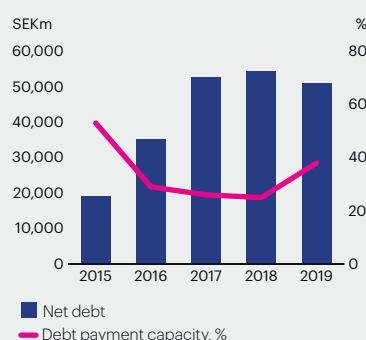
Consolidated capital employed by currency, SEKm

	2019	%	2018	%	2017	%
EUR	43,985	39	43,678	40	40,937	40
USD	20,173	18	20,304	19	18,020	18
CNY	17,376	15	16,865	15	15,550	15
MXN	6,570	6	5,505	5	4,621	5
GBP	5,432	5	5,325	5	5,119	5
Other	20,205	17	17,626	16	17,790	17
Total	113,741	100	109,303	100	102,037	100

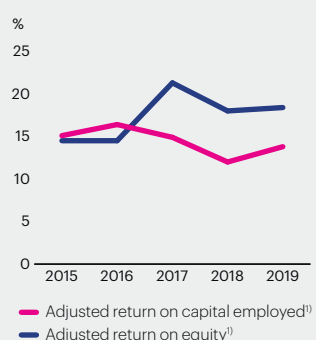
Consolidated balance sheet

SEKm	2019	2018	2017
Intangible assets	55,763	55,028	53,121
Property, plant and equipment	56,900	51,673	48,482
Other non-current assets	7,651	5,420	5,495
Total non-current assets	120,314	112,121	107,098
Current assets	41,981	42,145	39,918
Total assets	162,295	154,266	147,016
Equity	62,801	54,899	49,570
Non-current liabilities	56,214	57,795	60,828
Current liabilities	43,280	41,572	36,618
Total equity and liabilities	162,295	154,266	147,016
Working capital	6,782	7,568	5,901
Capital employed	113,741	109,303	102,037
Net debt	50,940	54,404	52,467

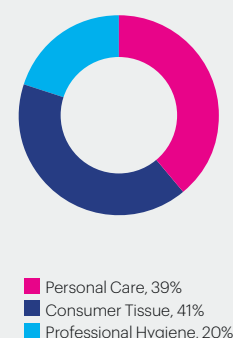
Net debt and debt payment capacity



Adjusted return on capital employed and equity¹⁾



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 that the company has a systematic and effective process to efficiently identify, manage and mitigate the effects of these risks.

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 each Business Unit President. The delegation scheme involves risks being managed primarily by Essity's business units, 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. The risks are analyzed based on how these impact Essity's opportunities to achieve established targets. Identified risks are classified according to the likelihood of these becoming a reality and the potential impact each risk could have on the Group. This process also includes specifying who is responsible for managing the risk, and measures for how risks shall be mitigated and followed up. Responsibility and follow-up for a number of risks is centralized at a global level.

Essity's financial risk management is centralized. The Group's internal bank handles the Group's financial risks 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 constitutes a framework for financial risk management. The risks are compiled and continuously monitored. Responsibility for insurable operational risks is managed by the Vice President Group Risk Management & Insurance. Risks in ethics, human rights and other sustainability risks as well as information security are aggregated and monitored on a regular basis at Group level.

Essity has a corporate internal audit unit, which follows 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 materially negatively impacting the operations:

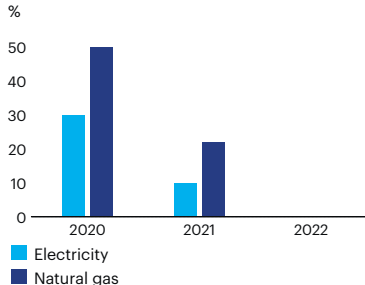
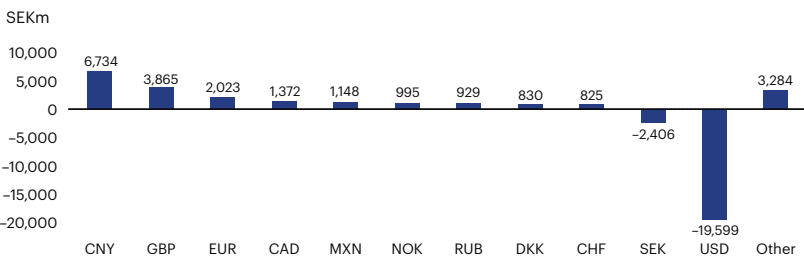
Risks that impact Essity's ability to achieve established targets

Risk	Action
GDP trend and economic conditions	
Demand for Essity's products is affected by general macroeconomic fluctuations and the resulting changes to customer purchasing power and consumption patterns. For example, a tighter budget situation in the public sector or among business customers influences sales in the healthcare sector and business-to-business, respectively. Sales to the retail sector, which accounts for the bulk of sales of hygiene products, may also be affected by reduced purchasing power among consumers.	Essity continuously works to manage the effect of cyclical fluctuations that arise, for example, through measures to reduce costs, increase efficiency and to create higher customer value through product innovations. Essity also works on differentiation to move toward product areas that are less sensitive to economic fluctuations.

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 such change, for example, increased production costs and investment requirements, 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), which was updated in 2019. The system also enables the simulation of investments on the basis of climate aspects. 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. Through clear governance and responsibility for climate targets within Essity's management team, climate impact is also a clear part of the company's business strategies and financial planning. Essity works to reduce carbon emissions by, for example, making investments in renewable energy and energy-saving programs. In addition, Essity has adopted targets relating to packaging, which are part of Essity's commitment to the Ellen MacArthur Foundation's plastics initiative. The targets aim to increase the proportion of renewable or recycled material in the company's packaging. 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, products and services are intensifying.	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 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, and also to contribute actively to the development of areas where we have expertise and that are significant to our operations. Such areas include environmental and energy issues, where the circular economy, use of resources and more specifically, issues relating to waste, plastics, chemicals, and emissions to water and air can be considered of particular importance for Essity. 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.
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 16.

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 geographies and areas of business. In 2019, Essity's ten largest customers, most of them retail companies and distributors, accounted for 23.7% of net sales. The company works to maintain strong long-term customer relationships in strategic customer segments, as well as building relationships with new customers. Essity is participating by continuously increasing its online sales and also by aligning to the new and changing purchasing and consumption patterns. 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 protect its employees, the environment, the company's assets and the business properly and in a cost-efficient manner. Essity strives to create and maintain a balance between loss-prevention activities and insurance coverage. The loss-prevention work is conducted in accordance with established guidelines that include repeated inspections carried out 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 at 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 of Essity taking part in or being 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 conduct themselves in the workplace, in the community and in the market. Essity's employees are routinely trained in the Code of Conduct. 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 the Compliance Council, which includes parts of the Essity management and where internal audit has an opportunity to take part in work.
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 for all employees to have a personal development plan focused on both skills development and new challenges. Essity strives to ensure that salaries and other benefits are market-based and competitive in the labor market where the employee works. Essity works 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.	
Suppliers Essity is dependent on a large number of suppliers. The unplanned or sudden loss of key suppliers could result in increased 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.	
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.	
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. The price trend for a number of input goods over the past ten years is presented in the diagram below. Highest/lowest market prices (annual average) 2009–2019 per product can be delayed through purchasing agreements with fixed durations. Efficiency improvements in the company's operations, altered 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.	

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 movements in the prices of electricity and natural gas, but the prices of other energy commodities also directly and indirectly impact 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. Exceptions are made for regulated and non-hedgeable markets. Energy prices are hedged through financial instruments and fixed pricing in existing supply contracts. Essity safeguards the supply of electricity and natural gas through centrally negotiated supply contracts. The portfolio of supply agreements and financial hedges is effectively spread to minimize Essity's counterparty risk. In 2019, Essity purchased about 5 TWh (5; 5) of electricity and about 8 TWh (8; 8) of natural gas. The graph shows 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 contracts. 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, 2019  <table> <caption>Energy price hedges in relation to forecast consumption, December 31, 2019</caption> <tr> <th>Year</th><th>Electricity (%)</th><th>Natural gas (%)</th></tr> <tr> <td>2020</td><td>~30</td><td>~50</td></tr> <tr> <td>2021</td><td>~10</td><td>~22</td></tr> <tr> <td>2022</td><td>0</td><td>0</td></tr> </table>	Year	Electricity (%)	Natural gas (%)	2020	~30	~50	2021	~10	~22	2022	0	0																																																																																																																										
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Currency Transaction exposure Transaction exposure is the risk that exchange rate movements in export revenues as well as import expenses and other costs 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 Group companies' 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 2019</th></tr> <tr> <td>EUR</td><td>38</td><td>34</td><td>9,975</td><td>10.5781</td></tr> <tr> <td>USD</td><td>15</td><td>30</td><td>-14,747</td><td>9.4483</td></tr> <tr> <td>CNY</td><td>11</td><td>6</td><td>7,673</td><td>1.3684</td></tr> <tr> <td>GBP</td><td>7</td><td>4</td><td>5,052</td><td>12.0571</td></tr> <tr> <td>MXN</td><td>5</td><td>4</td><td>2,199</td><td>0.4908</td></tr> <tr> <td>COP</td><td>3</td><td>3</td><td>389</td><td>0.0029</td></tr> <tr> <td>RUB</td><td>3</td><td>2</td><td>892</td><td>0.1461</td></tr> <tr> <td>SEK</td><td>2</td><td>4</td><td>-1,656</td><td></td></tr> <tr> <td>Other</td><td>16</td><td>13</td><td>6,063</td><td></td></tr> <tr> <td>Total</td><td>100</td><td>100</td><td>15,840</td><td></td></tr> </table> ¹⁾ Excluding items affecting comparability.	Currency	Sales %	Costs %	Adjusted EBITA ¹⁾ SEKm	Average rate 2019	EUR	38	34	9,975	10.5781	USD	15	30	-14,747	9.4483	CNY	11	6	7,673	1.3684	GBP	7	4	5,052	12.0571	MXN	5	4	2,199	0.4908	COP	3	3	389	0.0029	RUB	3	2	892	0.1461	SEK	2	4	-1,656		Other	16	13	6,063		Total	100	100	15,840		Transaction exposure Most of Essity's business is conducted outside Sweden and transaction exposure therefore arises primarily in currencies other than SEK. The largest exposure comprises a purchase requirement for USD and selling requirements for CNY and GBP. The significant USD exposure is a consequence of the Group's purchase of pulp that is invoiced in USD. Transaction exposure, resulting from exports and imports, can be hedged for a period of up to 18 months. Contracted future payments for non-current assets in foreign currencies can be hedged up to the full cost. The currencies with the greatest net volume were hedged as follows: USD 0.8 month, CNY 0 month, GBP 0.8 month. 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 2020. For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting on page 93. Net flows in 2019  <table> <caption>Net flows in 2019 (SEKm)</caption> <tr> <th>Currency</th><th>Net flows (SEKm)</th></tr> <tr> <td>CNY</td><td>6,734</td></tr> <tr> <td>GBP</td><td>3,865</td></tr> <tr> <td>EUR</td><td>2,023</td></tr> <tr> <td>CAD</td><td>1,372</td></tr> <tr> <td>MXN</td><td>1,148</td></tr> <tr> <td>NOK</td><td>995</td></tr> <tr> <td>RUB</td><td>929</td></tr> <tr> <td>DKK</td><td>830</td></tr> <tr> <td>CHF</td><td>825</td></tr> <tr> <td>SEK</td><td>-2,406</td></tr> <tr> <td>USD</td><td>-19,599</td></tr> <tr> <td>Other</td><td>3,284</td></tr> </table> Translation exposure Essity manages translation exposure by distributing the liability across the various currencies where the Group owns assets so that key figures that are important for the company's credit rating are protected in the long term against exchange rate effects. Translation exposure in the income statements of foreign Group companies is not currency-hedged. As at December 31, 2019, net debt amounted to SEK 50,940m (54,404; 52,467). 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>2019 %</th><th>2018 %</th><th>2017 %</th></tr> <tr> <td>EUR</td><td>21,278</td><td>42</td><td>46</td><td>46</td></tr> <tr> <td>SEK</td><td>9,827</td><td>19</td><td>11</td><td>19</td></tr> <tr> <td>GBP</td><td>7,172</td><td>14</td><td>15</td><td>6</td></tr> <tr> <td>USD</td><td>5,053</td><td>10</td><td>13</td><td>15</td></tr> <tr> <td>CNY</td><td>2,767</td><td>5</td><td>7</td><td>8</td></tr> <tr> <td>MXN</td><td>2,423</td><td>5</td><td>4</td><td>3</td></tr> <tr> <td>HKD</td><td>1,812</td><td>4</td><td>3</td><td>2</td></tr> <tr> <td>Other</td><td>608</td><td>1</td><td>1</td><td>1</td></tr> <tr> <td>Total</td><td>50,940</td><td>100</td><td>100</td><td>100</td></tr> </table>	Currency	Net flows (SEKm)	CNY	6,734	GBP	3,865	EUR	2,023	CAD	1,372	MXN	1,148	NOK	995	RUB	929	DKK	830	CHF	825	SEK	-2,406	USD	-19,599	Other	3,284	Currency	Net debt SEKm	Percentage of net debt			2019 %	2018 %	2017 %	EUR	21,278	42	46	46	SEK	9,827	19	11	19	GBP	7,172	14	15	6	USD	5,053	10	13	15	CNY	2,767	5	7	8	MXN	2,423	5	4	3	HKD	1,812	4	3	2	Other	608	1	1	1	Total	50,940	100	100	100
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Risk

Action

Credit

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

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 971m (1,255; 1,555), gross. Taking net calculation agreements per counterparty into consideration, credit exposure of derivatives amounted to SEK 551m (810; 1,084). At year-end, the total credit exposure was SEK 3,750m (4,028; 4,964). This exposure includes credit risk of SEK 2,928m (3,081; 4,107) for cash and cash equivalents. 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			96	96
Financial assets measured at amortized cost	119		56	175
Cash and cash equivalents	2,395	128	405	2,928
Derivate assets, net	551			551
Total	3,065	128	557	3,750

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

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 on 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 solid distribution in the maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, taking unutilized credit facilities that are not liquidity reserves into account. 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 measures 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 credit-worthiness.

Essity's net debt decreased by SEK 3,464m in 2019. At year-end, the average maturity of gross debt was 3.1 years (3.5; 4.3). If short-term loans were replaced with long-term unutilized credit facilities, the maturity would amount to 3.6 years. Unutilized credit facilities amounted to SEK 20,850m at year-end. In addition, cash and cash equivalents totaled SEK 2,928m. For further information, see Note E2 Financial assets, cash and cash equivalents on page 91, and Note E4 Financial liabilities on page 92.

Liquidity reserve

SEKm	2019	2018	2017
Unutilized credit facilities	20,850	20,554	19,680
Cash and cash equivalents	2,928	3,008	4,107
Total	23,778	23,562	23,787

SEKm	2019	2018	2017
Net sales	128,975	118,500	109,265
Liquidity reserve ¹⁾	18%	20%	22%

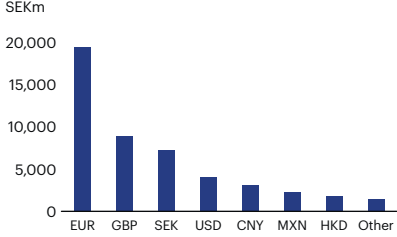
¹⁾ Liquidity reserve as a percentage of net sales.

Interest rate

Interest rate risk relates to the risk that changes to interest rates could have a negative impact on Essity. Essity is affected by interest rate movements through financial income and expenses, cash flow and the value of its financial assets and liabilities.

Essity strives to achieve a solid distribution of its interest maturity dates to avoid large debt volumes of renewals occurring at the same time. Essity's policy states that the average interest duration shall be a minimum of 3 months and a maximum of 36 months. Essity's financial items increased in 2019. The increase was primarily related to higher interest and higher average net debt, mainly due to the new accounting standard for leases. Essity's largest funding currencies are EUR, GBP and SEK, refer to the graph on the right. To achieve the desired interest duration, Essity uses financial derivatives. The average interest duration for the gross debt, including derivatives, was 24.7 months (26.7; 30.1) at year-end. The average interest rate for the total outstanding net debt including derivatives, amounted to 2.11% (2.55; 1.83) at year-end.

Gross debt distributed by currency



Materiality analysis

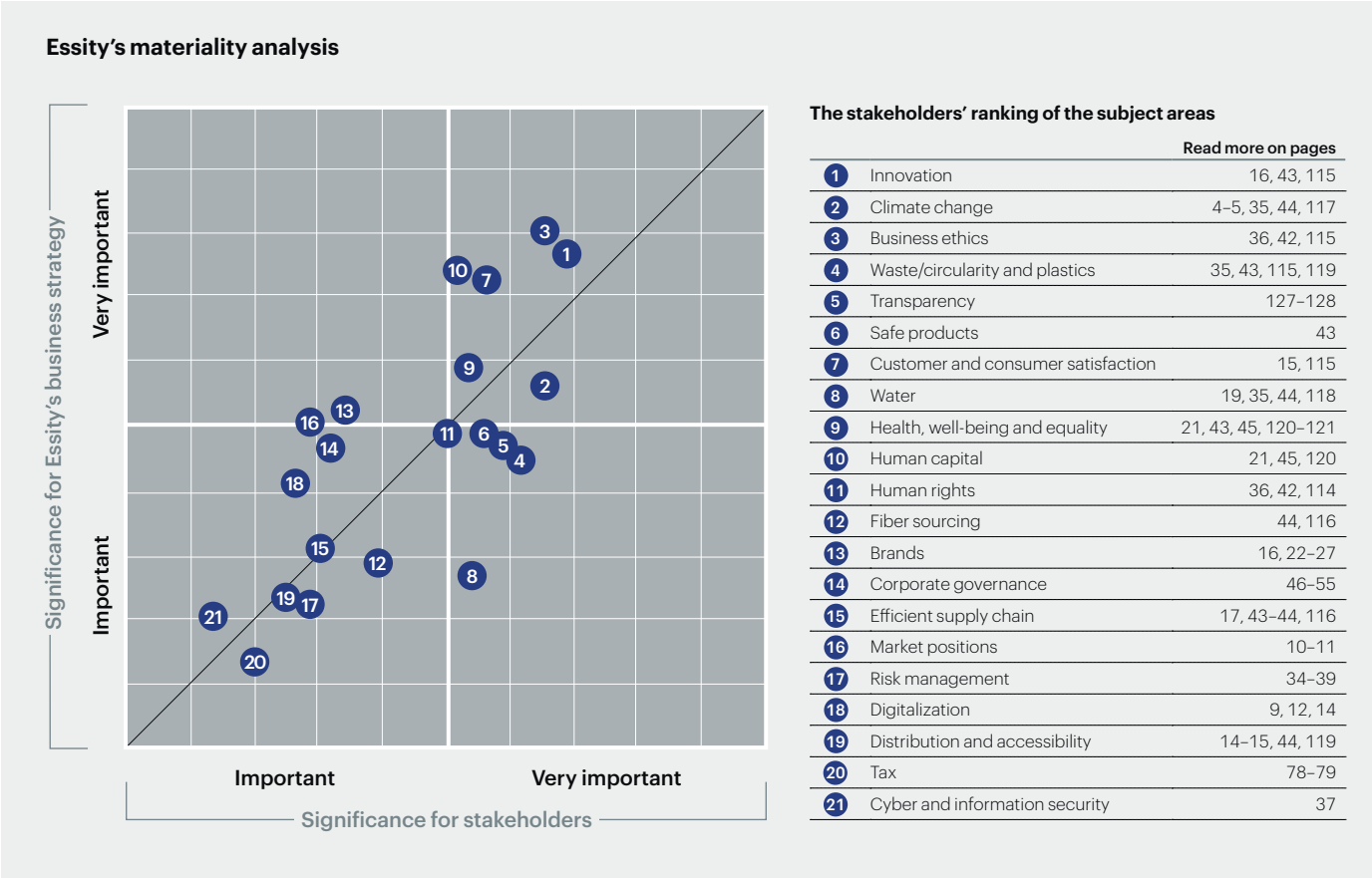
Essity conducts a materiality analysis among its stakeholders every other year. The analysis provides insight into the subject areas they consider to be significant. These then form the basis of the company’s strategy. Interest in such topics as climate change, waste/circularity and plastics increased during the year, which is shown in the analysis. These topped the list, together with innovation and business ethics, which remain the topics that the stakeholders find to be most important.

This year’s web-based materiality analysis yielded approximately 900 responses from customers, consumers, suppliers, investors, analysts, media representatives, community representatives, decision-makers and employees. The respondents were able to select the ten topics they

considered most important for Essity. The stakeholders’ prioritization of these topics were grouped together with responses from Essity’s senior management, whose priorities correspond to the company’s business strategy. The results are presented in the graph below. The X axis shows the responses from all stakeholders except Essity’s senior management, whose responses are shown on the Y axis. The responses from the stakeholder groups were weighted to provide an accurate view of the results. The topics are numbered according to how high they were ranked in the survey. There is also a reference to where you can find more information in this year’s Annual and Sustainability Report.

The selection of subject areas to be included in the materiality analysis was guided by employees from different parts

of the company. This was done so that the selected areas would be relevant regardless of who responded to the survey. Various frameworks and policy documents such as the Global Reporting Initiative, the UN Global Compact and Essity’s Code of Conduct also formed the basis for the selected areas. The survey covered 21 topics, all of which are important to Essity. Most were kept unchanged from previous years so as to facilitate analysis and comparison over time. A number of the subjects were reformulated to cover a larger area. A few of them are new. A comprehensive account of all topics in the survey can be found at www.essity.com/sustainability.



Sustainability governance

Sustainability has long been integrated into all of Essity's functions and at all levels of operations. Essity's sustainability governance model is the same as for the Group's corporate governance. As a result, sustainability issues are discussed at all of the company's Board meetings, among the Executive Management Team and in the various business units and global units.

The purpose of Essity's sustainability governance is to ensure the Group's commitments to its stakeholder groups, including customers, consumers, 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 social and environmental expectations. Economic strength and stability is a prerequisite for social responsibility and environmental investments that generate long-term financial growth. Essity has established a number of policies and management systems to achieve and maintain the company's economic value creation with respect to social and environmental value creation. To reach Essity's value creation targets, the Executive Management Team has established a number of sustainability targets that are monitored and reported annually.

Essity's overall management approach to social value creation is intended both to assess how the company impacts and interacts with people through its operations and to develop strategies for establishing positive relationships 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 socially sustainable development in the Group's operations, and for various stakeholders along the value chain. In the markets where Essity operates, social values are 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. A number of committees and networks operate in the Group's different business units to guarantee a consistent approach. Read more about this at www.essity.com/sustainability.

Summary of strategic components of Essity's sustainability governance

Adopted by: ● Board of Directors ■ CEO ▲ Other level

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)	● Code of Conduct ● Sustainability Policy ● Anti-bribery and Corruption Policy ● Tax Policy	● Code of Conduct ● Sustainability Policy ● Anti-bribery and Corruption Policy ■ Community Relations Instruction ▲ Global Supplier Standard	● Code of Conduct ● Sustainability Policy ■ Fiber Sourcing Policy ▲ Global Supplier Standard	● Code of Conduct ● Sustainability Policy ● Anti-bribery and Corruption Policy ● Compensation Policy ▲ Health and Safety Instruction ▲ Diversity Policy
Targets and KPIs	● Financial targets ● People and nature innovations	● Innovations with social improvements ● The number of countries where Essity is number 1 or 2 in at least one product category	● Climate and energy – Science Based Targets ● Suppliers in compliance with the Global Supplier Standard ● Fiber Sourcing ● Production waste ● Water ● Packaging ● Innovations with environmental improvements	● 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 ● Life cycle management ● ISO 9001 ● OHSAS 18001	● Innovation process ● ESAVE (energy) ● MSAVE (material) ● Chain of Custody certification, FSC and PEFC ● ISO 9001, ISO 14001, ISO 50001 ● Life cycle assessment (LCA) based on the ISO 14040 series ● Greenhouse Gas Protocol ● SMETA ● IMO 2020 regulation	● Global system for performance review and development planning ● Essity's Leadership Platform ● OHSAS 18001
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 ● ILO Core Conventions

Regulatory frameworks and assurance

External regulations and internal steering documents

Essity monitors the development of and ensures compliance with social, environmental and financial legislation that is relevant to its sustainability governance. Essity has developed a position in the form of position papers in which the company states its views in several areas. The position papers are available at www.essity.com/sustainability.

Code of Conduct

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 such international standards as 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 the company's own production units. Sedex is a global database in which companies share information about their production units with their customers. The information concerns working conditions, the environment and business ethics as well as health and safety.

All employees are regularly trained in the Code of Conduct. The Code of Conduct is included in all onboarding programs across the company. Essity expects its joint-venture companies to implement a Code of Conduct and guidelines equivalent to those stipulated in Essity's Code of Conduct.

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

Reporting violations of the Code of Conduct

Essity offers its employees a number of internal channels to report violations of legislation or the Code of Conduct. All Essity employees have the opportunity to use a whistleblower system managed by an external party. Where permitted by law, there is the possibility of reporting breaches anonymously. Essity's Compliance & Ethics department receives all incoming reports from the whistleblower system. Reports are presented to Essity's Compliance Council, whose chair is the company's General Counsel. The Committee also monitors Essity's Code of Conduct. Read more about work in 2019 with the Code of Conduct and with anti-corruption efforts in Note H2 on pages 114-115.

Human rights

Essity's commitment to human rights is based in the company's Code of Conduct. Essity's approach for ensuring respect for human rights in conjunction with the company's operations is built on the UN Guiding Principles on Business and Human Rights (UNGP). In accordance with this framework, due diligence audits are conducted regarding the management of the company's impact on human rights. Essity

conducts regular Group-wide and local risk assessments to evaluate the risks and effects on human rights.

Anti-corruption

Essity's Code of Conduct, as well as its Anti-bribery and Corruption Policy, represent the most important steering documents in the area of anti-corruption. An evaluation and risk assessment of the company's anti-corruption program is conducted regularly. The program includes third-party reviews of suppliers and distributors. An anti-corruption e-learning course is part of Essity's onboarding program. The course is compulsory for employees in particularly vulnerable positions such as sales and purchasing, who also undergo special training tailored for their activities.

Compliance and monitoring

Essity's Compliance & Ethics department is responsible for the anti-corruption program and for the Code of Conduct training program.

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 a country's social and environmental risks, and indications of non-compliance with Essity's policies or information from Essity's management teams. The content of the audits emanates from Essity's Code of Conduct. The 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, 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 and one important element is the type of management culture among managers. The content of the audits is based on Essity's Code of Conduct. Interviews are conducted with managers and employees to ensure the effectiveness of the control environment and challenges in the local environment.

Assurance

In addition to Essity being reviewed by external auditors, its operations are subject to external reviews, for example, in connection with 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.

Enable more people every day to enjoy a fuller life

Essity is to deliver better, safe and socially and environmentally sound products and services to its customers. Innovation activities are based on the insight into customers' and consumers' needs, social and environmental criteria and on the foundation of Essity's three sustainability platforms: well-being, more from less, and circularity. It is essential that Essity optimizes existing and new products, packaging and services during and after use to reduce consumption and waste. Read more on www.essity.com/sustainability and in Note H3 on page 115.

Essity complies with all prevailing laws and regulations for the company's products. The company follows strict requirements and procedures to ensure that all materials in the company's products are safe for consumers, customers, employees and the environment. Essity has global 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.

Essity has a system for handling feedback from customers and consumers. Feedback and complaints provide valuable customer and consumer insights. The knowledge gathered is transferred to the organization. Essity always investigates whether there is cause for action beyond the individual case and compensates dissatisfied customers where relevant. Read more about work in 2019 with customers and consumers in Note H4 on page 115.

Role in society and community relations

Essity works to routinely monitor, evaluate and anticipate changes in the business environment in the form of political decisions, general guidelines and amended regulations in the areas that are of particular importance for the operations. Essity is part of national and international industry organizations and other partnerships. The intent is to, at an early stage, obtain knowledge and actively promote development of areas that have an impact on Essity and where the company possesses valuable knowledge.

Essity strives to be a dedicated partner in the local communities wherever it conducts operation. In accordance with Essity's Community Relations Instruction,

the company prioritizes initiatives with a clear link to the company's operations, expertise, culture and geographic presence. Read more about Essity's role in society and community relations at www.essity.com/sustainability and in Note H5 on page 115.

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 consumption in use, developing products with smarter design and quality material and by continually optimizing resource efficiency along the value chain. Read more about Essity's packaging targets in Note H6 on page 115.

Essity follows a life cycle approach at every stage of the value chain to encompass the social, environmental 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, development of innovations and after use.

A life cycle assessment (LCA) shows the total environmental impact of a product from the use of raw materials, product development, production and use, to the waste phase. This is based on the ISO 14040 and 14044 standards as well as product-specific regulations for tissue products and Personal Care products. For each activity in the life cycle, an LCA estimates the impact from raw materials, energy and transportation as well as emissions. Life cycle assessments conducted by Essity cover the main 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.

Responsible sourcing involves seeking high-quality raw materials that are safe from both a social and environmental perspective. The company's suppliers adhere to strict demands in Essity's Global Supplier Standard.

Resource-efficient production focuses on efficient use of resources and on reducing energy consumption and waste. Only chemicals that meet Essity's stringent safety requirements are used. Their potential impact on employees, customers, consumers and the environment is evaluated

continuously. The production units apply management systems, such as ISO 9001, ISO 14001 and OHSAS 18001.

Supply chain management

Essity employs a systematic approach to manage potential risks in its supply chain. By purchasing from suppliers who meet the requirements established in its Global Supplier Standard, Essity will routinely promote responsible business operations and respect for human rights in the company's supply chain. The Global Supplier Standard contains requirements concerning quality, product safety, the environment and chemicals. It also contains a Code of Conduct for Suppliers that covers Essity's expectations as regards human rights (for example, child labor and forced labor) and employee relations as well as health and safety. Moreover, Essity requires its suppliers to conduct self-evaluations on labor standards, the environment, business ethics as well as health and safety through the Sedex database. The responses are used both in risk assessments when evaluating potential suppliers and in the routine risk assessment of suppliers of purchased materials, products and services.

Purchases from suppliers in countries classified as high risk under the Maplecroft Human Rights Index are audited specifically with a focus on parameters such as human rights and employment conditions. An ethical audit can also be triggered by other indicators such as a low rating in Sedex or a low score in Essity's supplier audit. The preferred audit format is SMETA, which is the most popular method in the world for social and ethical audits. Other audit methods are accepted if they meet Essity's requirements.

Certain materials and goods – for example, conflict minerals, cotton and wood fiber that Essity purchases – are deemed to have the greatest risks before they reach Essity's direct suppliers. Consequently, risk assessment must be carried out lower down in the supplier chain. Read more about work in 2019 with suppliers in Note H7 on page 116.

Conflict minerals and cotton

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 (CMRT) from the Responsible Minerals Initiative.

Some of Essity's products contain cotton fiber, and Essity requires the cotton to be produced sustainably taking fair working conditions and the environment into account. Essity is a member of the Better Cotton Initiative, the world's largest sustainability program for cotton. Essity prefers this program, but other programs can also be accepted.

Fiber sourcing

Essity's target is that all raw materials derived from wood-based fresh fiber in the company's products and packaging 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 wood-based fresh fiber, meaning timber, pulp, packaging, mother reels and finished products supplied by external parties to Essity's own production sites.

All fiber material containing wood-based fresh 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 sourcing policy for wood-based fresh fiber in place and a shared business system for the assessment, purchase and traceability of fiber in compliance with Essity's targets for purchasing fiber.

Essity requires wood-based fresh fiber suppliers to guarantee that they have robust systems and documented procedures in place to ensure traceability and compliance throughout the supply chain. When needed, Essity will support all new suppliers in their transition to third-party certification. Essity also conducts its own audits of suppliers' systems and sometimes employs external parties to produce reports or perform additional surveys of suppliers. The audits are based on Essity's Global Supplier Standard. Read more about the company's fiber purchasing in 2019 in Note H8 on page 116.

Climate and energy

Essity has adopted Science Based Targets for the reduction of greenhouse gas emissions. Approved by the Science Based Targets initiative, these targets encompass energy, electricity, suppliers, transportation and waste. The Science Based Targets initiative helps companies determine which emission reductions they need to achieve to decrease the global temperature rise, as agreed by the countries of the world at the 2015 UN climate change conference (COP 21) in Paris.

ESAVE is an Essity program that comprises investments in energy efficiency. This engages employees in daily improvement activities for energy use at Essity. The company also cooperates with external stakeholders such as machinery suppliers to ensure energy efficiency, continuous improvements and compliance of new equipment with future requirements. Essity also has a material savings program, MSAVE, using the same philosophy, methodology and exchange of experience as ESAVE. The program aims to achieve cost efficiency while minimizing the environmental impact from raw materials and reduced waste. Read more about work in 2019 with energy and emissions to air as well as the company's Science Based Targets in Note H9 on pages 117-118.

Water

Essity strives to reduce water use and 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 removes dissolved solids and organic impurities that affect biological oxygen demand (BOD) and chemical oxygen demand (COD). Read more about work in 2019 with water in Note H10 on page 118.

Waste management

Waste management of products is a common responsibility for Essity and its 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 under existing composting standards to ensure that all requirements are met. Essity is also working to develop the recycling of paper hand towels.

For Essity's products in the Personal Care business area, energy recovery through combustion is a good alternative to landfill. There are currently no infrastructure or established business models for collecting and recycling used products. Essity is working actively on investigating new waste management alternatives. Read more about work in 2019 with waste in Note H11 on page 119.

Distribution and transportation

Essity works continually to reduce emissions and the environmental impact of transportation. The implementation of the Group-wide Transport Management System is the driver behind efficiency enhancements in transportation. This results in increased fill ratio, optimized routes and a choice of means of transportation with a smaller environmental impact. Essity is continuously reviewing its distribution network in order to reduce transport distances and routes driven with empty loads. By optimizing the use of trucks and containers, Essity will reduce the number of transportation runs from plants to ports. Essity is also working to maximize the use of pallets and to use larger trailers to further improve loading volumes and reduce the number of transportation runs.

Maritime transportation is used primarily to transport pulp fiber, and Essity routinely monitors shipping companies to ensure that they comply with applicable environmental standards. The company works actively to use low sulfur fuel, which will become mandatory with the new IMO 2020 ordinance. For transportation between suppliers, plants and warehouses, Essity prioritizes emission-efficient methods of transport such as barges, rail transportation and transportation providers who combine different methods of transportation. Read more about Essity's work in 2019 with transport in Note H12 on page 119.

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

At Essity, all employees are to be treated with respect and offered an opportunity to develop in their career. The company values, and works continually for, increased diversity. All employees are recruited, evaluated and promoted based on objective criteria without negative discrimination with regard to gender, marital status, origin, sexual orientation, religious faith, political affiliation, age, disability or other categories protected by law.

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 competence plan. The plan is based on Essity's strategy, demographics, and access to expertise 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 regularly measured through a global employee survey. This is followed by systematic work to identify and implement measures.

Essity offers its employees development opportunities and remuneration based on market rates comprising salary, variable remuneration, 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. The company works continually to narrow and prevent unjustified pay gaps and differences in other employment

conditions. The variable remuneration programs (STI and LTI) target, in addition to the Executive Management Team and senior management, other key positions.

The company endeavors to provide its employees with efficient and flexible opportunities to perform their duties. Through its working from home policy, Essity leverages modern technology and new working methods that allow employees, whenever necessary, to perform their duties outside their usual workplace. Essity faces new challenges in some markets with an aging workforce, since absence related to musculoskeletal disorders increases with age. Essity has created a workplace program containing technical improvements and attitude changes to create a more ergonomic work environment.

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 company meets with employee organizations at various levels on a regular basis to inform them of and discuss issues concerning the Group's performance and earnings, as well as health and safety and employment terms and conditions. Essity also has an agreement with IndustriALL, the industry union. The aim is to communicate changes well ahead of time. When there is no union representation, Essity establishes other channels where possible, such as partnership councils.

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 plan normally includes assistance in seeking other employment and/or education, opportunities for early retirement or other financial incentives.

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

and productivity. Employee data for 2019 is in Note H13 on page 120.

Health and safety

Essity's work on health and safety for its employees is based on compliance with the company's Code of Conduct and responsible business operations. Essity's aim is zero workplace accidents and it works continually to improve the work environment, which provides employees with the possibility of a sustainable work life. Health and safety for employees is a top priority. The well-being of our employees is a prerequisite if they are to reach their full potential. Essity's strategy for healthy workplaces integrates physical, mental and social health. The capacity of the workplace to manage health issues through reactive, preventive and proactive initiatives is measured using the company's self-evaluation tool. 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 routinely 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 and a governance system for risk assessment and training as well as setting and monitoring targets. All incidents – those that resulted in an accident and those that could have – are reported, analyzed and followed up so that they do not happen again. This means the company has good opportunities for performing risk assessments, continually monitoring performance and working proactively. Read more about work in 2019 on health and safety in Note H14 on page 121.