

# Group Operations and structure

Essity reports its operations according to three business areas: Personal Care, Consumer Tissue and Professional Hygiene. Personal Care comprises the product categories of Incontinence Products, Medical Solutions, Baby Care and Feminine Care and includes incontinence products, baby diapers, pads, panty liners, tampons, wet wipes, skincare products and digital solutions with sensor technology, as well as products and services in wound care, compression therapy and orthopedics. Consumer Tissue includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes, napkins and face masks. Professional Hygiene includes complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand sanitizer, dispensers and face masks. Essity also offers digital solutions, such as Internet of Things sensor technology that enables data-driven cleaning.

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, markets and sells products in the categories of consumer tissue, baby care and feminine care in Europe, the Middle East and Africa.
- Health and Medical Solutions, markets and sells products in the categories of incontinence products in Europe, North America, the Middle East and Africa and produces, markets and sells products in medical solutions in Asia, Europe, North America, the Middle East and Africa.
- Latin America, markets and sells products in the categories of consumer tissue, baby care, incontinence products, medical solutions, feminine care and professional hygiene in Latin America.
- Professional Hygiene, markets and sells complete hygiene solutions to the business area's customer segments 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:

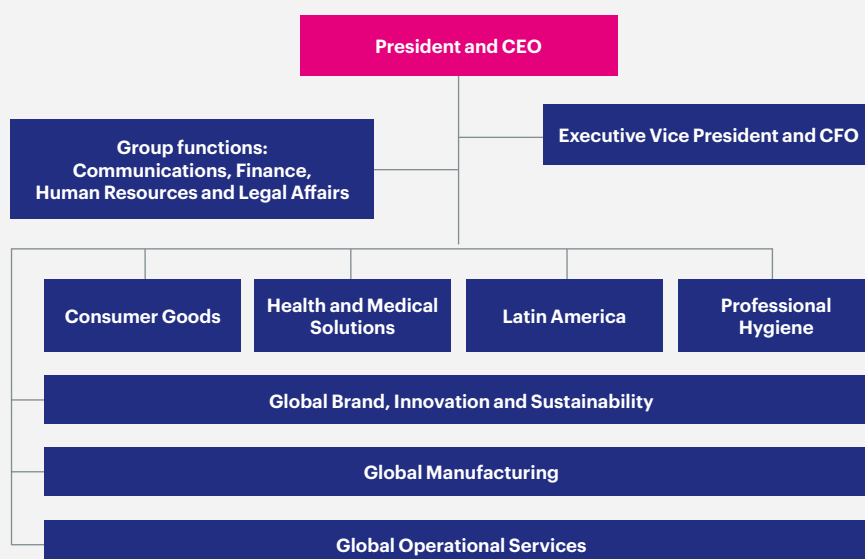
- Communications
- Finance
- Human Resources
- Legal Affairs

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

The COVID-19 pandemic and related lockdowns and restrictions had a negative effect on Essity's sales, which mainly impacted Professional Hygiene and Medical Solutions. Essity acquired the MedTech companies ABIGO Medical AB and Novioscan. Essity divested its 49% stake in the company Sancella Tunisia. The target for adjusted return on capital employed was raised to above 17% by 2025. Essity decided to invest in a new digital platform to accelerate the company's digital transformation. The "Manufacturing Roadmap" program was launched to optimize and streamline all of Essity's approximately 60 wholly owned facilities.

## Organization



# Acquisitions, investments and divestments

## **Essity acquires 75% of ABIGO Medical AB**

On February 27, 2020, Essity announced that the company had signed an agreement to acquire 75% of the Swedish medical solutions company ABIGO Medical AB. The company as a whole is valued at SEK 900m on a debt-free basis. ABIGO Medical AB develops, manufactures and markets products including the Sorbact® technology, which is a clinically established innovation for advanced wound care. The company has about 170 employees and reported net sales of approximately SEK 403m in 2019. ABIGO Medical AB was a key partner and sub-supplier to Essity. The transaction, which was subject to customary regulatory approvals, was finalized on April 30, 2020.

## **Essity acquires 100% of Novioscan B.V.**

On April 1, 2020, Essity announced that the company is strengthening its offering in incontinence products through the acquisition of the Dutch company Novioscan. The company develops a wearable ultrasound technology that monitors the bladder and enables continence control. The purchase price is approximately SEK 70m on a debt-free basis.

## **Essity divests partly owned company in Tunisia**

On October 21, 2020, Essity announced that the company is divesting its 49% stake in Sancella Tunisia to the other owner

Sotupa. Sancella Tunisia offers a range of Essity's products and brands in Tunisia, Algeria, Morocco, and Libya. Essity will retain a presence on these markets through license and distribution agreements. In 2019, Sancella Tunisia reported net sales of SEK 575m. The divestment was completed in December 2020 and gave rise to a gain of SEK 29m, which was recognized as an item affecting comparability in the fourth quarter of 2020.

## **Investment in digital transformation**

Essity's digital transformation will accelerate in the years ahead through a new digital platform. This will further strengthen the Group's customer and consumer offerings, generate significant cost savings and reduce the need for working capital. This digital investment is expected to amount to approximately SEK 2.6bn. Of this amount, approximately SEK 1.4bn will comprise costs that will be charged to the 2020–2024 period, and SEK 1.2bn will comprise capital expenditures. A positive sales and earnings impact is expected gradually from 2022. In the short term, costs are expected to be offset by savings in other areas. The digital platform will enable automation in all parts of the value chain, simplification and economies of scale, and greater visibility and predictability based on high-quality data collection and advanced analytics.

# 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 2020, the Parent company recognized operating income of SEK 265m (209) and profit before appropriations and tax of SEK 2,605m (4,098). Investments in property, plant and equipment totaled SEK 1m (14) 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 -1,559m (-1,485), corresponding to about 1.3% 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 2020, 2,199,470 Class A shares were converted to Class B shares. The proportion of Class A shares was 8.8% at year-end.

## **Dividend**

The Board of Directors proposes an increase in the dividend of 8% to SEK 6.75 (6.25) per share or SEK 4,741m (4,390). The record date for entitlement to receive dividends is proposed as March 29, 2021. 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 36–51 and 120–127 in the Board of Directors' Report. The company's business model can be found on page 15. 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 119.

### **Guidelines for remuneration of senior executives**

Guidelines agreed by the most recent Annual General Meeting (AGM) can be found in Note C2 on pages 87–89. The company's application of the guidelines can be found in the remuneration report on pages 136–137 and in Note C2.

The Board has decided to propose the following new guidelines to the 2021 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, incentivise 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, measured as TSR value (TSR, Total Shareholder Return: the value shall be the composed of the total dividend and other returns as well as the share performance) over a three-year period. This value shall, for the same period, be compared with the MSCI Household products Index, Consumer Staples, which is a weighted index of competing companies and consumer companies' corresponding TSR value. A maximum outcome requires that the performance of the Essity share exceeds the benchmark index by more than 5 per cent over the 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 common 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 doing so 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 of employment law legislation or collective agreements. Nor shall they apply to already executed agreements.

These guidelines shall apply commencing the 2021 Annual General Meeting until further notice.

For information on the company's calculated expenses for remuneration of senior executives, see Note C2 on page 87.

# Net sales and earnings

## Net sales

Essity's net sales in 2020 declined 5.6% compared with the corresponding period a year ago to SEK 121,752m (128,975). Organic net sales, which exclude exchange rate effects, acquisitions and divestments, declined 1.9%, of which volume accounted for -2.3% and price/mix for 0.4%. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns and restrictions. Organic net sales declined 4.5% in mature markets and increased 2.6% in emerging markets. Emerging markets accounted for 37% of net sales. Exchange rate effects reduced net sales by 3.7%. Acquisitions increased net sales by 0.1% and were largely attributable to the acquisition of the medical solutions company ABIGO Medical AB. Divestment of a partly owned company in Turkey reduced net sales by 0.1%.

## Earnings

The Group's adjusted gross margin increased 3.0 percentage points to 32.5% (29.5) compared with the corresponding period a year ago. The gross margin was positively impacted by a better mix in all business areas, lower raw material and energy costs and cost savings. Continuous cost savings amounted to SEK 1,056m. The Group's adjusted EBITA margin rose 2.2 percentage points to 14.5% (12.3). Sales and marketing costs increased as a share of net sales.

Essity's adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA)<sup>1)</sup> increased 11% (16% excluding currency translation effects, acquisitions and divestments) in 2020 to SEK 17,626m (15,840).

Items affecting comparability amounted to SEK -59m (-713) and were impacted positively as a result of the Dutch pension plan being reclassified from a defined benefit to a defined contribution scheme during the second quarter of 2020 due to a contract renegotiation. Restructuring costs and impairments had a negative impact.

Financial items decreased to SEK -958m (-1,309). Lower interest and lower average net debt had a positive impact.

Adjusted profit before tax<sup>1)</sup> increased 15% (20% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 15,859m (13,753).

The tax expense, excluding effects of items affecting comparability, was SEK 4,054m (2,987).

Adjusted profit for the period increased 10% (15% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 11,805m (10,766).

Profit for the period increased 15% (20% excluding currency translation effects, acquisitions and divestments) to SEK 11,747m (10,212). Earnings per share were SEK 14.56 (13.12). The adjusted earnings per share were SEK 15.45 (14.69).

## Key figures

The adjusted return on capital employed<sup>1)</sup> was 15.7% (13.8). The adjusted return on equity<sup>1)</sup> was 18.3% (18.4).

## Summary income statement

| SEKm                                               | 2020           | 2019           | 2018           |
|----------------------------------------------------|----------------|----------------|----------------|
| <b>Net sales</b>                                   | <b>121,752</b> | <b>128,975</b> | <b>118,500</b> |
| <b>Adjusted EBITA<sup>1)</sup></b>                 | <b>17,626</b>  | <b>15,840</b>  | <b>12,935</b>  |
| <b>EBITA</b>                                       | <b>17,567</b>  | <b>15,127</b>  | <b>11,560</b>  |
| <b>Adjusted operating profit<sup>1)</sup></b>      | <b>16,817</b>  | <b>15,062</b>  | <b>12,203</b>  |
| Items affecting comparability                      | -59            | -713           | -1,444         |
| <b>Operating profit</b>                            | <b>16,758</b>  | <b>14,349</b>  | <b>10,759</b>  |
| Financial items                                    | -958           | -1,309         | -1,157         |
| <b>Adjusted profit before tax<sup>1)</sup></b>     | <b>15,859</b>  | <b>13,753</b>  | <b>11,046</b>  |
| <b>Profit before tax</b>                           | <b>15,800</b>  | <b>13,040</b>  | <b>9,602</b>   |
| Adjusted tax <sup>1) 2)</sup>                      | -4,054         | -2,987         | -1,490         |
| Tax <sup>2)</sup>                                  | -4,053         | -2,828         | -1,050         |
| <b>Adjusted profit for the period<sup>1)</sup></b> | <b>11,805</b>  | <b>10,766</b>  | <b>9,556</b>   |
| <b>Profit for the period</b>                       | <b>11,747</b>  | <b>10,212</b>  | <b>8,552</b>   |

<sup>1)</sup> Excluding items affecting comparability.

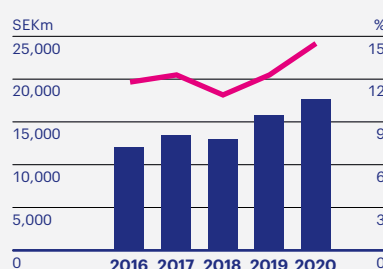
<sup>2)</sup> 2019: A revaluation of deferred tax had a positive impact on the tax rate of SEK +253m.  
2018: A decision in a tax case in Sweden reduced tax by approximately SEK+1.1bn.

## Net sales, share of Group



- Personal Care, 38%
- Consumer Tissue, 41%
- Professional Hygiene, 21%

## Adjusted EBITA<sup>1)</sup> and adjusted EBITA margin<sup>1)</sup>

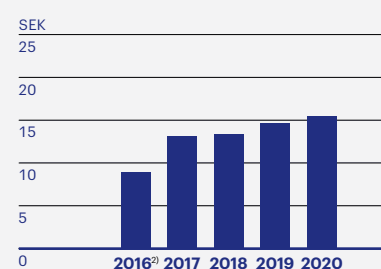


■ Adjusted EBITA<sup>1)</sup>

— Adjusted EBITA margin<sup>1)</sup>

<sup>1)</sup> Excluding items affecting comparability.

## Adjusted earnings per share<sup>1)</sup>



<sup>1)</sup> Excluding items affecting comparability and amortization of acquisition-related intangible assets.

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

# Cash flow and financing

The operating cash surplus amounted to SEK 24,653m (22,932). The cash flow effect of changes in working capital was SEK -810m (359). Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -6,439m (-5,707). Operating cash flow before investments in operating assets through leases amounted to SEK 16,427m (16,090). Investments in operating assets through leases amounted to SEK -409m (-451). Operating cash flow was SEK 16,018m (15,639).

Financial items decreased to SEK -958m (-1,309). Lower interest and lower average net debt had a positive impact.

Tax payments had an impact on cash flow of SEK -3,917m (-1,130). A decision in a tax case in Sweden reduced the tax payment by approximately SEK 1.1bn in 2019.

The net sum of acquisitions and divestments was SEK -380m (77). Net cash flow totaled SEK 6,046m (8,915).

Net debt decreased by SEK 8,252m during the year and amounted to SEK 42,688m. Excluding pension liabilities, net debt amounted to SEK 40,176m. Net cash flow reduced net debt by SEK 6,046m. 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 199m. Exchange rate movements reduced net debt by SEK 2,804m. Investments in non-operating assets through leases increased net debt by SEK 399m.

The debt/equity ratio was 0.67 (0.81). Excluding pension liabilities, the debt/equity ratio was 0.63 (0.76). The debt payment capacity was 46% (38). Net debt in relation to adjusted EBITDA amounted to 1.76 (2.25).

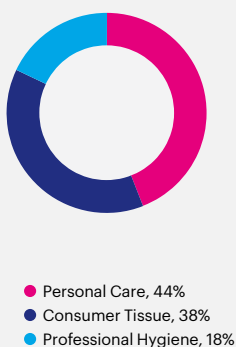
## The Group's cash flow



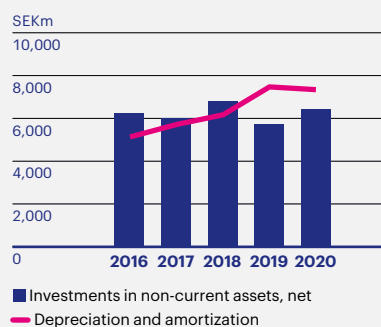
## Operating cash flow statement

| SEKm                                                                             | 2020          | 2019          | 2018         |
|----------------------------------------------------------------------------------|---------------|---------------|--------------|
| Operating cash surplus                                                           | 24,653        | 22,932        | 18,570       |
| Change in working capital                                                        | -810          | 359           | -971         |
| Investments in non-current assets, net                                           | -6,439        | -5,707        | -6,781       |
| Restructuring costs, etc.                                                        | -977          | -1,494        | -918         |
| <b>Operating cash flow before investments in operating assets through leases</b> | <b>16,427</b> | <b>16,090</b> | <b>9,900</b> |
| Investments in operating assets through leases                                   | -409          | -451          | 0            |
| <b>Operating cash flow</b>                                                       | <b>16,018</b> | <b>15,639</b> | <b>9,900</b> |
| Financial items                                                                  | -958          | -1,309        | -1,157       |
| Income taxes paid                                                                | -3,917        | -1,130        | -2,466       |
| Other                                                                            | 32            | 8             | 86           |
| <b>Cash flow from current operations</b>                                         | <b>11,175</b> | <b>13,208</b> | <b>6,363</b> |
| Acquisitions of Group companies and other operations                             | -747          | -143          | -694         |
| Divestments of Group companies and other operations                              | 367           | 220           | 68           |
| <b>Cash flow before transactions with shareholders</b>                           | <b>10,795</b> | <b>13,285</b> | <b>5,737</b> |
| Private placement to non-controlling interests                                   | 64            | 4             | 5            |
| Dividend to non-controlling interests                                            | -423          | -336          | -397         |
| Dividend                                                                         | -4,390        | -4,038        | -4,038       |
| <b>Net cash flow</b>                                                             | <b>6,046</b>  | <b>8,915</b>  | <b>1,307</b> |

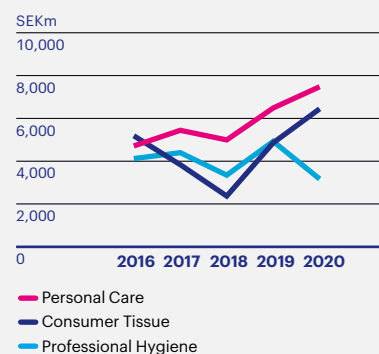
## Operating cash flow, share of Group



## Investments in non-current assets



## Operating cash flow by business area



# Financial position

## Assets and capital employed

The Group's total assets decreased 4.7% compared with the preceding year, amounting to SEK 154,645m (162,295). Non-current assets decreased SEK 8,785m compared with the preceding year to SEK 111,529m (120,314), of which property, plant and equipment amounted to SEK 53,631m (56,900) and intangible assets to SEK 50,898m (55,763).

Current assets totaled SEK 43,116m (41,981). Working capital amounted to SEK 7,146m (6,782). Capital employed was 6.7% lower and totaled SEK 106,030m (113,741).

## Equity

The Group's equity increased by SEK 541m during the period, to SEK 63,342m (62,801). Net profit for the period increased equity by SEK 11,747m. Equity decreased due to dividends to shareholders of SEK 4,843m. Equity increased net after tax by SEK 78m 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 349m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, reduced equity by SEK 6,896m. Other items increased equity by SEK 106m.

## Financing

The Group's interest-bearing gross debt amounted to SEK 43,353m (48,191) at year-end. The maturity period was 3.1 (3.1) years.

During the year, net debt decreased year-on-year by SEK 8,252m and amounted to SEK 42,688m. Excluding pension liabilities, net debt amounted to SEK 40,176m. Net cash flow reduced net debt by SEK 6,046m. 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 199m. Exchange rate movements reduced net debt by SEK 2,804m. Investments in non-operating assets through leases increased net debt by SEK 399m.

## Key figures

The debt/equity ratio was 0.67 (0.81). Excluding pension liabilities, the debt/equity ratio was 0.63 (0.76). The visible equity/assets ratio was 35% (33). Adjusted return on capital employed and equity was 15.7% (13.8) and 18.3% (18.4), respectively. The capital turnover rate was 1.1 (1.1). At year-end, working capital amounted to 6% (5) of net sales.

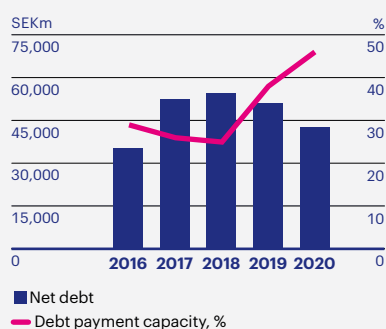
### Consolidated capital employed by currency, SEKm

|              | 2020           | %          | 2019           | %          | 2018           | %          |
|--------------|----------------|------------|----------------|------------|----------------|------------|
| EUR          | 43,218         | 41         | 43,985         | 39         | 43,678         | 40         |
| USD          | 17,458         | 16         | 20,173         | 18         | 20,304         | 19         |
| CNY          | 17,750         | 17         | 17,376         | 15         | 16,865         | 15         |
| MXN          | 5,519          | 5          | 6,570          | 6          | 5,505          | 5          |
| GBP          | 4,794          | 5          | 5,432          | 5          | 5,325          | 5          |
| Other        | 17,291         | 16         | 20,205         | 17         | 17,626         | 16         |
| <b>Total</b> | <b>106,030</b> | <b>100</b> | <b>113,741</b> | <b>100</b> | <b>109,303</b> | <b>100</b> |

### Consolidated balance sheet

| SEKm                                | 2020           | 2019           | 2018           |
|-------------------------------------|----------------|----------------|----------------|
| Intangible assets                   | 50,898         | 55,763         | 55,028         |
| Property, plant and equipment       | 53,631         | 56,900         | 51,673         |
| Other non-current assets            | 7,000          | 7,651          | 5,420          |
| <b>Total non-current assets</b>     | <b>111,529</b> | <b>120,314</b> | <b>112,121</b> |
| Current assets                      | 43,116         | 41,981         | 42,145         |
| <b>Total assets</b>                 | <b>154,645</b> | <b>162,295</b> | <b>154,266</b> |
| Equity                              | 63,342         | 62,801         | 54,899         |
| Non-current liabilities             | 50,230         | 56,214         | 57,795         |
| Current liabilities                 | 41,073         | 43,280         | 41,572         |
| <b>Total equity and liabilities</b> | <b>154,645</b> | <b>162,295</b> | <b>154,266</b> |
| Working capital                     | 7,146          | 6,782          | 7,568          |
| Capital employed                    | 106,030        | 113,741        | 109,303        |
| Net debt                            | 42,688         | 50,940         | 54,404         |

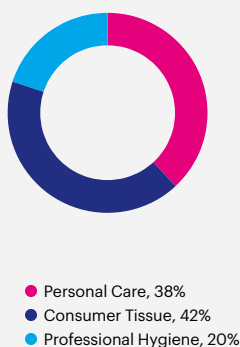
### Net debt and debt payment capacity



### Adjusted return on capital employed and equity<sup>1)</sup>



### 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 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 clear 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 annual strategy process, where risks are analyzed based on how they impact Essity's opportunities to achieve established targets. Identified risks are assessed 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 the majority of risks are centralized at a global level.

- 1 Identification and analysis
- 2 Action for risk management
- 3 Monitoring

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 adopted 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 Group Risk Management & Insurance department. Risks related to 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 adopted policies.

**Based on current knowledge, the following are deemed to be the main factors that risk materially negatively impacting the operations and Essity's ability to achieve established targets:**

## GDP trend and economic conditions

### Risk

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.

### Action

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.

## Environmental impact and climate change

### Risk

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 increased in importance.

### Action

Essity's strategic framework and sustainability target 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 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 Science Based Targets issued by the Science Based Targets initiative (SBTi) 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 also constitutes 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. In 2020, Essity carried out scenario analyses to evaluate in detail the effects climate change may have on Essity's operations in the years ahead.

- Read more about Essity's reporting based on the recommendations of the framework of the Task Force on Climate-related Financial Disclosures (TCFD) on pages 42–43.

## Global health risks

### Risk

Extensive outbreaks of disease entail risks for Essity's operations, not least in terms of the risks posed to our employees' health and safety and their ability to carry out their work. Political decisions to limit the spread of disease, such as lockdowns, more stringent border security measures or other restrictions may also cause disruptions at production facilities, in the supply chain or for a third party's ability to fulfill its obligations toward Essity. More extensive outbreaks of disease may also result in a temporary fall in demand for some of our products, changed consumer behavior and preferences and changes in the economic conditions in the countries where we conduct operations.

Disease outbreaks and global health risks could potentially also lead to an increase in healthcare costs. This, in turn, may result in limitations being imposed on subsidized prescription of Essity's products in Incontinence Products and Medical Solutions and an accelerated shift toward self-management of health and self-financing of these products.

### Action

The highest priority during extensive outbreaks of disease, such as the current pandemic, is to take action to safeguard the health of employees. The company implements a series of actions to adapt local operations to reduce the risk of infection. These could include remote working where possible, information disclosure about handling the risk of infection, protective equipment, new procedures for carrying out work, limited access to plants and offices, restrictions on business travel, changed forms of customer contact and so forth.

When required due to disease outbreaks, the company also adapts its solutions for sourcing raw materials and storage as well as transport solutions for raw materials and finished products.

## Changes in demographics, consumer behavior and preferences

### Risk

Changing demographics and lifestyle alter demand from customers and consumers. There is a risk of a decline in demand for our products if we do not successfully satisfy customer and consumer needs and adapt our innovation program, product portfolio, sales channels, brand-building activities and communication accordingly.

The global population is growing, entailing that the age structure in many countries is moving toward a larger share of the population in the category 65 years and over. At the same time, younger generations of consumers have preferences and behaviors that impact what and how they shop, for example, in the form of more stringent demands on convenience, transparency, sustainability and social responsibility. This has given rise to demand for new products, services and solutions, such as subscription services, recycling solutions and a greater emphasis on a sustainable choice of materials.

### Action

Customer and consumer insights constitute the core of Essity's innovation work. Through knowledge about people's daily needs and challenges, we create an offering that improves quality of life for users. We continuously analyze customer and consumer data and listen to the views of consumers, customers, experts and opinion formers to improve our offering.

## Political decisions and regulatory measures

### Risk

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 other countries 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.

### Action

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

### Risk

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. In recent years, digitalization has broadened Essity's competitive landscape in digital products and solutions, new digital business models and new players, such as start-ups and technology companies that now compete with Essity in the field of hygiene and health.

Competition, the occurrence of substitutes and the effect of digitalization present the risk of a negative effect on sales and pricing of Essity's products and jeopardizes the company's market position.

### Action

Essity's focus on customer and consumer insight guides its innovation activities, ensuring that new products and services are attractive and 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, including digital solutions and sales models. 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 17.

## Dependence on major customers and sales channels

### Risk

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, e-commerce, 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, and is leading to a gradual shift in channels toward an increased share of e-commerce.

### Action

Essity's customer structure is relatively dispersed, with customers in many different geographies and areas of business. In 2020, Essity's ten largest customers, most of them retail companies and distributors, accounted for 22.5% of net sales. The company works to maintain strong long-term customer relationships in strategic customer segments, and to build relationships with new customers. Essity is participating through a continuous and steady increase in its e-commerce 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

### Risk

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, and loss of production and income, which ultimately, could have a negative impact on Essity's market position.

### Action

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

### Risk

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 practices 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.

### Action

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 committing 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 team and where internal audit has an opportunity to take part in work.

## Employees

### Risk

To meet its targets, Essity is dependent on being able to recruit, retain and develop qualified and motivated employees. There is high competition for skilled employees.

### Action

Essity ensures access to employees with relevant competence through strategic staffing and succession planning. Essity strives to build a reputation for the company as an attractive employer. This includes health and safety in the workplace, market-based and competitive forms of employment, personal development plans and the possibility to take on new challenges in the Group. In the recruitment of employees, it is important to create a modern and attractive corporate culture. Essity also works actively to build and maintain good relationships with union organizations.

## Legal risks

### Risk

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.

### Action

Essity constantly monitors developments in a number of areas and addresses any legal risks that arise in cooperation with external advisers. Legal issues are often national by nature, which means that local experts are also often engaged by Essity in various issues.

## Suppliers

### Risk

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.

### Action

Essity enters into supply contracts of various durations with a large number of different suppliers. These 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 specially selected suppliers in the development of materials and processes. Essity continuously evaluates its suppliers to ensure compliance with agreements entered into. Particular importance is placed on suppliers operating in countries and industries deemed to be more vulnerable to risks. The assessment of key suppliers may take the form of a questionnaire, on-site visit or independent audit.

## Information and IT

### Risk

Essity relies on IT systems for its operations. Disruptions or faults in critical systems, as well as the increasing prevalence of cyber-attacks, risk having a direct impact on production and other important business processes. Errors in financial systems risk affecting the company's reporting of results.

### Action

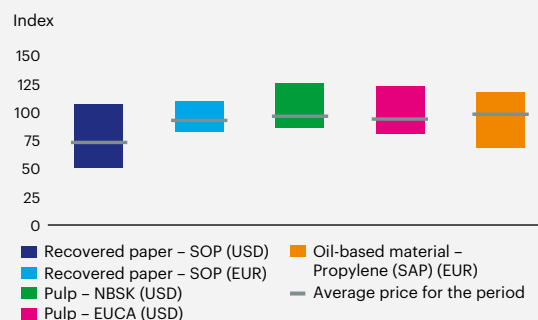
Essity has a management model for IT that contains governance, standardized IT processes and an organization for information security. The latter works with continuous risk assessment, preventive measures and the use of security technologies. Standardized procedures are in place for implementing and changing systems and IT services, as well as for daily operations.

## Cost of input goods

### Risk

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) 2010–2020 per input goods



### Action

Fiber (pulp and recovered paper) is a significant cost item, mainly in Consumer Tissue and Professional Hygiene. Essity is evaluating alternative types of fiber, such as wheat straw as a means of diversifying fiber sourcing in the future. The cost of oil-based materials is driven by the trend in oil prices and represents a major cost item in Personal Care and for various packaging materials. The trend in oil prices 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, altered product specifications and price increases are examples of measures to offset the effect of rising costs for input goods.

➤ Essity's costs for input goods are described on page 138.

## Energy price

### Risk

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.

### Action

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.

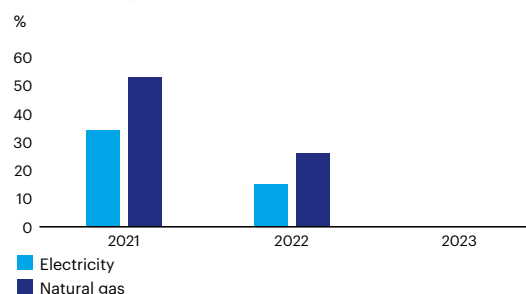
Essity safeguards the supply of electricity and natural gas through centrally negotiated supply contracts. The portfolio of supply contracts and financial hedges is effectively spread to minimize Essity's counterparty risk.

In 2020, Essity purchased about 5 TWh (5; 5) of electricity and about 7 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 100.

Energy price hedges in relation to forecast consumption, December 31, 2020



## Currency

### Risk

#### Transaction exposure

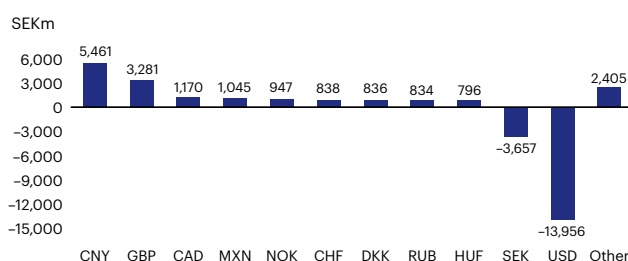
Transaction exposure is the risk that exchange rate movements in export revenues as well as import expenses and other costs could negatively impact the Group's operating profit and the cost of non-current assets.

### Action

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 1.2 months, CNY 0 months, GBP 1.2 months. 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 2021.

#### Net flows in 2020



➤ For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting on page 100.

### Risk

#### Long-term currency sensitivity

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

| Currency     | Sales %    | Costs %    | Adjusted EBITA <sup>1)</sup> SEKm | Average rate 2020 |
|--------------|------------|------------|-----------------------------------|-------------------|
| EUR          | 38         | 37         | 8,098                             | 10.4721           |
| USD          | 13         | 27         | -12,026                           | 9.1749            |
| CNY          | 12         | 7          | 7,430                             | 1.3303            |
| GBP          | 8          | 4          | 4,379                             | 11.7760           |
| MXN          | 5          | 4          | 2,119                             | 0.4296            |
| COP          | 3          | 3          | 420                               | 0.0025            |
| RUB          | 3          | 2          | 770                               | 0.1276            |
| SEK          | 2          | 4          | -962                              | 1.0000            |
| Other        | 16         | 12         | 7,398                             |                   |
| <b>Total</b> | <b>100</b> | <b>100</b> | <b>17,626</b>                     |                   |

<sup>1)</sup> Excluding items affecting comparability.

### Risk

#### Translation exposure

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

### Action

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, 2020, net debt amounted to SEK 42,688m (50,940; 54,404).

#### Net debt distributed by currency

| Currency     | Net debt SEKm | Percentage of net debt |            |            |
|--------------|---------------|------------------------|------------|------------|
|              |               | 2020 %                 | 2019 %     | 2018 %     |
| EUR          | 18,190        | 43                     | 42         | 46         |
| SEK          | 7,652         | 18                     | 19         | 11         |
| USD          | 7,002         | 16                     | 10         | 13         |
| GBP          | 5,085         | 12                     | 14         | 15         |
| CNY          | 3,262         | 8                      | 5          | 7          |
| MXN          | 1,529         | 4                      | 5          | 4          |
| HKD          | 654           | 2                      | 4          | 3          |
| Other        | -686          | -3                     | 1          | 1          |
| <b>Total</b> | <b>42,688</b> | <b>100</b>             | <b>100</b> | <b>100</b> |

➤ For further information relating to hedging of translation exposure, see Note E6 Derivatives and hedge accounting on page 100.

## Credit

### Risk

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.

### Action

#### 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 expected 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 98.

#### Financial credit risk

Essity's finance policy regulates the maximum permitted counterparty risk depending on the counterparty's credit rating from the credit rating agencies Standard & Poor's, Moody's and Fitch. The objective is that counterparties must have a minimum credit rating of BBB+ or equivalent from at least two of these credit rating agencies.

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 1,650m (971; 1,255), gross. Taking net calculation agreements per counterparty into consideration, credit exposure of derivatives amounted to SEK 887m (551; 810). At year-end, the total credit exposure was SEK 6,208m (3,750; 4,028). This exposure includes credit risk of SEK 5,048m (2,928; 3,081) for financial investments. Refer to the table below for the distribution of credit risk by category.

#### Financial credit exposure

| SEKm                                                                       | Category <sup>1)</sup> |            |            | Total        |
|----------------------------------------------------------------------------|------------------------|------------|------------|--------------|
|                                                                            | A                      | B          | C          |              |
| Financial assets measured at fair value through other comprehensive income | -                      | -          | 96         | 96           |
| Financial assets measured at amortized cost                                | 105                    | -          | 72         | 177          |
| Cash and cash equivalents                                                  | 4,188                  | 353        | 441        | 4,982        |
| Current investments >3 months                                              | -                      | 66         | -          | 66           |
| Derivative assets, net                                                     | 887                    | -          | -          | 887          |
| <b>Total</b>                                                               | <b>5,180</b>           | <b>419</b> | <b>609</b> | <b>6,208</b> |

<sup>1)</sup> A: Investment grade, a long-term credit rating from one or more of the agencies 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

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.

### Action

To ensure good access to loan financing, regardless of economic situation and on attractive terms, Essity strives to maintain a solid investment grade rating.

Essity maintains a 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 well distributed maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, taking unutilized credit facilities which are not part of the liquidity reserves into account. Surplus liquidity should primarily be used to amortize external liabilities. Essity's policy is to avoid terms that entitles the lender to terminate loans or adjust interest rates as a direct consequence of movements in Essity's financial key ratios or credit rating.

The Group's financing is mainly secured by bank loans, bond loans and through issuance of commercial papers. The refinancing risk in short-term borrowing is mitigated through long-term credit facilities from bank syndicates and individual banks with favorable creditworthiness.

Essity's net debt decreased by SEK 8,252m in 2020. At year-end, the average maturity of gross debt was 3.1 years (3.1; 3.5). If short-term loans would be replaced with long-term unutilized credit facilities, the average maturity would amount to 3.8 years. Unutilized credit facilities amounted to SEK 20,056m at year-end. In addition, cash and cash equivalents totaled SEK 4,982m.

#### Liquidity reserve

| SEKm                         | 2020          | 2019          | 2018          |
|------------------------------|---------------|---------------|---------------|
| Unutilized credit facilities | 20,056        | 20,850        | 20,554        |
| Cash and cash equivalents    | 4,982         | 2,928         | 3,008         |
| <b>Total</b>                 | <b>25,038</b> | <b>23,778</b> | <b>23,562</b> |

| SEKm                            | 2020    | 2019    | 2018    |
|---------------------------------|---------|---------|---------|
| Net sales                       | 121,752 | 128,975 | 118,500 |
| Liquidity reserve <sup>1)</sup> | 21%     | 18%     | 20%     |

<sup>1)</sup> Liquidity reserve as a percentage of net sales.

➤ For further information, see Note E2 Financial assets, cash and cash equivalents on page 98, and Note E4 Financial liabilities on page 99.

## Interest rate

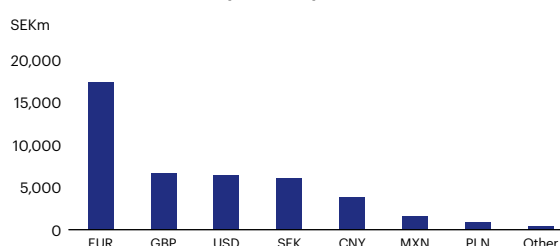
### Risk

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.

### Action

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 decreased in 2020. Lower interest rates and lower average net debt had a positive impact. Essity's major funding currencies are EUR, GBP and USD, refer to the graph on the right. To achieve the desired interest rate duration, Essity uses financial derivatives. The average interest rate duration for the gross debt, including derivatives, was 21.2 months (24.7; 26.7) at year-end. The average interest rate for the total outstanding net debt including derivatives, amounted to 1.61% (2.11; 2.55) at year-end.

#### Gross debt distributed by currency



# Climate-related risks and opportunities

Climate change affects Essity. The company identifies the risks and opportunities this entails, by means of, for example, scenario analyses. This helps to identify, manage and minimize the risks and to thus take the correct and necessary actions and also estimate and reduce the negative financial impact. Essity also strives to identify opportunities and further develop the company's strengths in its sustainability work to achieve competitive advantages.

Reporting based on the recommendations of the framework of the Task Force on Climate-related Financial Disclosures (TCFD). See also page 133 for an index of where more TCFD-related information can be found in the Annual and Sustainability Report.

## Strategy and governance

The identification and assessment of climate-related risks and opportunities are part of Essity's strategy process. Climate risks and opportunities are evaluated in each business unit and in a centrally coordinated internal expert group that represents key functional competencies for climate-related topics in Essity.

Responsibility for managing climate risks follows the company's delegation scheme, which is described on page 36. Sustainability issues are discussed on an ongoing basis by Essity's Board of Directors and in 2020 comprised a focus area in the work of the Board of Directors.

## Targets and KPIs

For many years Essity has worked with sustainability throughout the value chain: from responsible raw material sourcing, more efficient production with a smaller climate footprint, and sustainable solutions to customers and consumers. The sustainability work has been broken down into several targets and KPIs as Essity takes the approach that if you measure it, it will get done. The targets are ambitious and the company will also continue to grow. This places demands on the need to make a transition and on new

production methods and circular business models, which is a challenge but if handled correctly also offers business opportunities and cost savings. Essity's targets to reduce carbon emissions were approved by the Science Based Targets initiative in 2018. For Scope 1 and 2, Essity has undertaken to reduce greenhouse gas emissions by 25%, and for Scope 3 by 18% by 2030 compared with 2016.

Essity has appointed a steering committee to ensure that it meets the climate targets. This committee is led by members of Essity's Executive Management Team and its task is to prepare plans for delivering on all Scope 1, 2 and 3 targets.

Read more about the Essity's targets and outcomes on pages 22–23.

## Climate-risk analysis

A climate-risk analysis based on the recommendations of the framework of TCFD was completed in 2020. The analysis uses two different climate scenarios. Temperature change was studied from a long-term perspective until 2100. A ten-year perspective was used, until 2030, in order to draw conclusions about the impact on Essity. The analysis was based on the impact of climate change and the impact of changes to legislation.

## Process

Business intelligence and situation assessment from a climate perspective

Identification of possible climate scenarios and their consequences

Assessment according to Essity's risk process

Detailed analysis in centrally-coordinated internal expert group

Conclusions about the impact on Essity, assessment of risks and opportunities, and necessary action



## Scenario 1: Global warming of 2°C

**Description:** Global warming is limited to no more than 2°C by 2100 through collaboration between governments, industries, companies and individuals pushing for tougher legislation, green innovation and rising demand for environmentally friendly products and services. Carbon emissions are strictly limited and carbon tax is extended, which promotes processes with low carbon emissions and greater use of circular material and products.

### Risks

- Increased investment costs in innovation, production and distribution are needed due to tougher legislation for manufacturing processes, energy sources and material use
- Higher costs for goods sold due to price increases on raw materials, rising energy prices, higher distribution costs as well as higher carbon taxes and restrictions on carbon emissions
- Changed consumption patterns

### Opportunities

- Competitive advantages through Essity's long-term and robust efforts to achieve lower resource use, innovative green production methods and lower carbon emissions
- Changed consumption patterns in the form of increased demand for sustainable solutions with a smaller climate footprint, rewarding companies with a strong sustainability profile
- Investments in and development of new business models and green solutions attract more customers and consumers
- Leading hygiene and health solutions are a priority

### Actions

- Investment decisions consider both financial and environmental impact. Investments are made in state-of-the-art technology, improving process efficiency and reducing carbon emissions. Through "Industry 4.0" and the development of smart plants, Essity is achieving more efficient production, shorter lead times, higher quality and lower environmental impact.
- Essity researches and invests in several ground-breaking ideas in sustainable technology in its manufacturing processes with the aim of reducing the company's environmental footprint and setting new standards for the entire industry.

- In 2021, Essity will start up production of pulp from alternative fiber at its facility in Mannheim, Germany. The plant will produce high-quality pulp from wheat straw that will use less water, energy and chemicals as well as reducing carbon emissions. This will also offer Essity access to a new source of raw materials, which may over time reduce the company's exposure to wood-based pulp.
- Reduced resource consumption, efficiency enhancements, altered product specifications and price increases
- Essity prioritizes, if possible, emissions-effective transport methods for long-distance transportation. Essity has a strong focus on and prioritizes vehicle types that meet the requirements of the latest environmental and emissions classes combined with the most up-to-date alternatives, such as CNG fuel and electric trucks. Moreover, Essity participates in various local projects and partnerships with customers and suppliers to jointly reduce carbon emissions from transportation.
- The targets for carbon emission reductions are approved by the Science Based Targets initiative. To ensure that it meets the climate targets, Essity has appointed a steering committee led by members of Essity's Executive Management Team.
- Essity provides clear communication about how important and integrated sustainability work is within the company and the sustainability targets it is striving to fulfill.
- New offerings and business models are under development in Essity that contribute to a more sustainable society and reduce the environmental footprint of both the company and customers and consumers. For example, washable absorbent underwear has been launched, the proportion of renewable material has increased in our packaging, and more customers are using Tork PaperCircle®, which is the world's first recycling service for paper hand towels.
- Essity strives to increase the use of recycled and renewable material in packaging and products.
- Essity offers leading hygiene and health solutions to improve people's well-being all over the world. When people fulfill the most basic needs for food and shelter, the next priority is hygiene and health. Increased awareness globally of the importance of hygiene and health.

## Scenario 2: Global warming of 4°C

**Description:** Global warming of 4°C in 2100, due to the failure to effectively reduce emissions and other negative environmental impacts. Extreme weather increasingly common. Sea levels continue to rise, desertification and deforestation continues. Access to key resources such as raw materials, energy, water and food declines, resulting in greater volatility and uncertainty for prices and food security.

### Risks

- Production disruption due to extreme weather
- Rising insurance costs and costs for reconstruction
- Increased investment required to safeguard stable production and supply chain
- Significantly higher cost for sold goods as resource scarcity leads to higher prices for raw materials, energy, water and distribution
- Deforestation leads to a shortage of fresh wood-based fiber
- Lower living standards and changed consumption behavior

### Opportunities

- Competitive advantages from reliable production and sourcing in regions at risk
- Leading hygiene and health solutions are a priority

### Actions

- Essity has contingency plans in place in high-risk countries and is continuously working to safeguard production and sourcing of input goods.
- All of Essity's production facilities and associated distribution centers (regardless of their location) are obligated to follow Essity's loss-prevention policies, not only for fire, explosion, and machinery breakdowns but also for climate-related risks. In addition to contingency plans, this may involve tangible measures such as reinforcements for roofs and doors against wind, shut-off valves for gas in the event of an earthquake, or various customizations to keep rapidly rising water outside of a plant or warehouse. Essity has also employed external consultants to model the company's exposure to natural catastrophes where possible and is working with loss-prevention activities.
- Reduced resource consumption, efficiency enhancements, altered product specifications and price increases
- Essity's target for sourcing of fresh fiber means all wood-based fresh fiber is to be FSC® or PEFC™ certified, meaning from responsibly managed forests that uphold the principles of biodiversity and forest conservation.
- See also actions under Scenario 1.

# Sustainability governance

**Contributing to a sustainable and circular society is crucial to Essity. A healthy society is good for Essity. Based on well-defined areas of responsibility and follow-up, the company ensures that it delivers on established sustainability targets. To tackle increasing sustainability challenges, we also continuously develop our ambitions in dialogue with our stakeholders and external experts.**

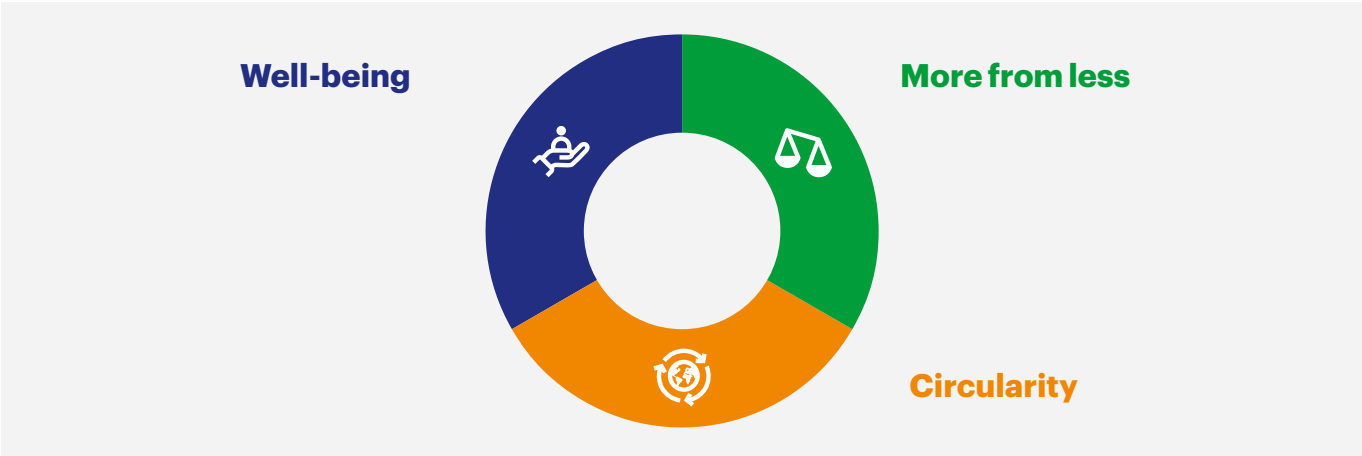
Essity's overall objective is to achieve and maintain the company's economic value creation with respect to social and environmental value creation. We want to improve well-being for people by providing better solutions with a lower impact on the environment. The Board has established a number of sustainability targets that are monitored and reported annually. To ensure that these targets are met, numerous policies and management systems are in place.

Essity's sustainability governance aims to ensure the company'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. We maintain an active and continuous dialogue with our stakeholders to ensure that Essity's priorities and methods are relevant over time.

Sustainability is incorporated throughout Essity's operations which is why sustainability governance forms an integrated part of the Group's overall corporate governance. Accordingly, sustainability-related matters are an integrated part of all of the meetings conducted by the company's Board and Executive Management Team, and in the various business units and global units, as well as in Group functions. A number of committees and networks in the company's various business units contribute insight and seek supplementary expertise from external sources, as well as ensuring a consistent approach.

Essity's sustainability work is pursued from three platforms: Well-being, More from less, and Circularity. In addition, sustainability governance includes Employees and Business ethics and human rights.

## Essity's sustainability platform



### Well-being

Essity's leading hygiene and health solutions cover all phases of life and can be used by individuals and society. Our contribution:

- Increasing access to hygiene and health solutions
- Providing safe products
- Taking an active role in society



### More from less and Circularity

We aim to create more value using less resources and contribute to a circular society. Our contribution:

- Reducing environmental impact from materials
- From waste to resources
- Reducing climate impact
- Improving water use



### Employees

Sustainability work is dependent on our employees and our culture.



### Business ethics and human rights

Essity's business ethics is crucial in our work in areas such as human rights.

#### Read more on

Corporate governance.....pages 52–57  
Sustainability targets .....22–23

Contribution to the UN Sustainable Development Goals ..... page 21  
More on sustainability governance ..... [essity.com/sustainability](https://essity.com/sustainability)



## Well-being

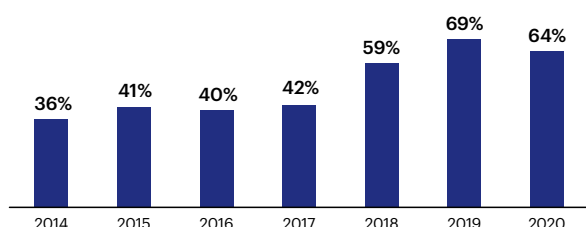
As a global company, Essity can make a difference for people and societies. We offer hygiene and health solutions for hundreds of millions of people every day, which helps to improve well-being and gender equality. We share our expertise and drive global dialogue to increase awareness about the importance of hygiene and health and to break the taboo surrounding these.

### Increasing access to hygiene and health solutions

Millions of people around the world lack fundamental solutions that could improve their quality of life. There are many reasons for this, for example, they do not have access to them or cannot afford them, the infrastructure is not in place or due to social stigma. It is essential to meet these needs. Essity wants to enhance the quality of life for more people and raise the hygiene and health standards around the world by increasing access to sustainable solutions and striving to break barriers surrounding hygiene and health that exist in our society.

To achieve this, we spend a large amount of time with our customers, consumers, users and other societal actors. This allows us to develop solutions based on a unique insight into the needs, challenges and expectations of our customers and consumers as well as whole societies. In this way, we enable and create value together for all of society. Essity's Group target is that at least 33% of the company's innovations are to yield social and/or environmental improvements. Examples of innovations in 2020 include packaging with recycled or renewable plastic, face masks and washable absorbent underwear.

#### Sustainable innovations



### Providing safe products

Product safety and product quality are of the utmost importance. For us, it is also important that our customers and consumers can easily find out what our products contain. We provide clear, reliable and accessible product information.

Essity complies with prevailing laws and regulations for the company's products. If specific sector requirements are lacking, we always comply with general legal frameworks on product safety. Essity monitors current research and continuously strives to make improvements in line with this research. This includes driving safety standards through voluntary undertakings that exceed statutory requirements. For example, Essity was involved in drawing up an industry standard in the EDANA association to harmonize assessment methods and enhance transparency of traces of chemicals in absorbent hygiene products.

We follow strict requirements and extensive procedures under our certified quality system (ISO 9001) to ensure that all materials and ingredients in the company's production and products are safe for consumers, customers, employees and the environment. Essity works closely with our suppliers to ensure they meet the company's Global Supplier Standard and guidelines.



A daughter visits her mother at a retirement home in Italy in 2020. The face masks are produced by Essity.

One important element of Essity's work to improve our solutions is feedback from our customers and consumers in the form of complaints and feedback. We always investigate whether there is cause for action beyond responding to the individual case. The company undertakes targeted corrective and preventive action.

### Taking an active role in society

We leverage our global reach to break barriers to well-being and share our expertise in hygiene and health in such areas as hand hygiene, menstruation and incontinence. As a means of contributing to global dialogue and driving forward social solutions, we regularly publish "The Hygiene and Health Report." This report is a collaboration with the Water Supply and Sanitation Collaborative Council (WSSCC), and was presented at the United Nations Foundation 2020 Global Dialogue.

To further contribute with our knowledge and expertise, we participate in various national and international industry organizations and other partnerships and dialogues. In addition to contributing relevant expertise, the aim is to, at an early stage, gain knowledge and actively promote development of areas that have an impact on the company, such as environmental and climate issues, trends in health, hygiene, and other social issues. Essity's Public Affairs department is responsible for ensuring governance, strategy and implementation of this work.

We strive to be a dedicated partner in various local communities. In accordance with Essity's Community Relations Instruction, the company primarily prioritizes initiatives with a clear link to the company's operations, where our expertise can make an effective contribution. One example of an initiative is arranging education courses in hygiene and health for various societal partners. The guidelines state that Essity shall be politically and religiously neutral.

#### Read more about Essity's results

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| H4. Customers and consumers.....                 | page 121 |
| H5. Role in society and community relations..... | page 121 |



## More from less and Circularity

**Essity is developing a resource-efficient value chain with sustainable manufacturing processes and products using innovative materials and smarter designs. We also encourage the use of recycled and renewable materials in our products and packaging. Circularity is a challenge that requires creative thinking, new business models and partnerships.**

Strategic innovation is conducted globally by Essity, with cross-functional networks focusing on innovation, packaging and circularity. Essity uses ISO 9001 for quality management and ISO 14001 and the EU's Eco Management and Audit Scheme (EMAS) for environmental management. A large number of production units are certified in accordance with ISO and/or EMAS. Social, environmental and circularity assessments are performed by experts in the Sustainability Products & Services unit to measure the company's progress. We measure environmental impact using life cycle assessments that are based on the ISO 14040 series of standards as well as product-specific regulations for tissue products and Personal Care products. The results of our external life cycle assessments are subject to third-party assessments.

Through our partnership with such organizations as the Ellen MacArthur Foundation, Essity promotes greater circularity throughout the company in collaboration with other actors.

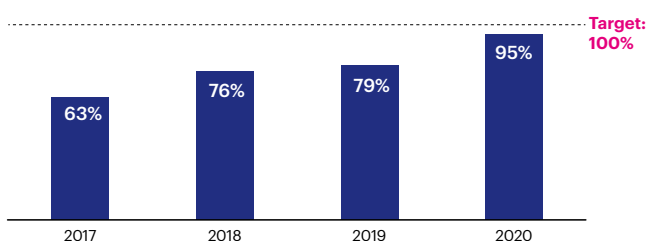
### Reducing the environmental impact of materials

Essity works in several ways to reduce material used in production. For example, we have a material savings program, MSAVE, with the aim of achieving cost efficiency while minimizing the environmental impact from raw materials and reducing waste.

#### For sustainable forestry

Fresh wood-based and recycled fiber accounts for the largest share of material in Essity's products. Forest is a natural resource, which in addition to providing raw material plays a key role for the climate and biodiversity. To ensure that our consumers can rely on that all components in an Essity product and all fiber comes from responsible forestry, Essity introduced a new target in 2019 that all raw materials derived from wood-based fresh fiber in the company's products and packaging are to be certified in accordance with the Forest Stewardship Council® (FSC®) or the Programme for the Endorsement of Forest Certification (PEFC™). Both certification programs place demands on the management of growing forest and seek to preserve biodiversity and protect cultural environment and social values. We have a global sourcing policy for wood-based fresh fiber in place and a shared business system for the assessment, purchase and traceability of fiber. Essity conducts its own audits of suppliers' systems and sometimes employs external parties to prepare reports or perform additional surveys of suppliers. We take part in global forums, including the Consumer Goods Forum (CGF) Forest Positive Coalition of Action, to act together against global deforestation.

Percentage of purchased wood-based fresh fiber that is certified



#### Smaller quantities and more sustainable plastic solutions

Plastic is a relatively robust material that can be customized for various uses, for example allowing Essity to produce thinner incontinence products. Plastic can therefore help Essity to make "more from less" at the same time as we can meet high quality standards. However, there are problems with fossil-based plastic, for example as a source of emissions and waste in nature.

Packaging represents a small part of our products' total life cycle but plays a big role to our customers. We are working to ensure that all of our packaging is recyclable and, step by step, is made from renewable and recycled materials. This means that we will continue to use paper packaging and are replacing fossil plastic in our plastic packaging with renewable plastic, recycled plastic or paper.

We are working continuously to develop smarter designs and innovative plastic materials for our products, which will reduce the climate impact in both our value chain and when in use. In the long term we want to offer more circular innovation.

#### Alternative materials

As a means of fulfilling our sustainability targets, we constantly research alternative fibers and production methods. One example is Essity's facility for alternative fiber at the company's tissue plant in Mannheim, Germany that will start manufacturing in 2021. We can thereby manufacture high-quality tissue from wheat straw, a renewable resource that is an agricultural by-product. This process is a circular innovation that will reduce the total environmental and climate impact of the pulp produced at the plant, including a significant decrease in water and energy consumption.

### From waste to resources

Inefficient waste management leads to climate change, pollution, impact on ecosystems and financial losses. Essity is dedicated to reducing waste in the entire value chain. Since waste has a clear impact on the climate, we measure our waste within the framework of our climate targets.

Reducing waste from our production facilities has been integrated into our work methods for a long time. Wherever waste arises, we work actively to recover it for use as material or energy. The production facilities work toward meeting the target that all production waste will be subject to material and energy recovery by 2030. For example, recovered material from tissue manufacturing can be used as raw material for other industries, such as the construction industry.

Waste management of products after use is the shared responsibility of Essity and our customers and consumers. Essity has included circularity assessments in its innovation process to obtain a better understanding of how we can avoid consumer and customer waste from arising. We endeavor to make all packaging technically recyclable. Tissue comprises renewable fibers that have many different after uses. Due to their biodegradability, they are well suited to being flushed as toilet paper or composting. They are also suitable for combustion with energy recycling or for recycling. Personal Care products that are contaminated by various bodily fluids are a greater challenge, but we are continuously evaluating various alternatives for existing waste management.

One difficulty in many markets is the lack of infrastructure for collecting used packaging or products. We therefore support national initiatives that strive to make large-scale recycling of packaging work in practice. One example of new methods intro-

duced by Essity is Tork PaperCircle®, where used paper hand towels are collected and recycled.

## Reducing climate impact

Climate change is the defining issue of our time. Its effects are far-reaching and global. We ensure that we reduce our greenhouse gas emissions through collaboration and innovative and environmentally sound solutions.

In 2018, Essity adopted Science Based Targets for the reduction of our greenhouse gas emissions. These targets were approved by the Science Based Targets initiative. The targets help 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.

In terms of energy use within the company and purchased electricity (Scope 1 and 2), Essity has undertaken to reduce emissions by 25% by 2030 compared with 2016. The target applies to wholly owned companies. Essity has, moreover, undertaken to reduce greenhouse gas emissions from the most important purchased raw materials, transport, waste arising from operations and handling at the end of the life cycle for sold products (Scope 3) by 18% by 2030 compared with 2016. We measure climate impact for our range of products through life cycle assessments.

To ensure that we meet the climate targets, Essity has appointed a steering committee led by members of Essity's Executive Management Team, with the task of preparing plans for delivering on all Scope 1, 2 and 3 targets.

Activities to reduce the environmental impact of suppliers and materials are presented on the previous pages. Our efforts in the areas of energy, electricity and transport are presented below.

### Energy and electricity

Energy efficiency, new technology and the greater use of renewable energy are required to achieve Essity's stated targets. Essity has a long history of enhancing energy efficiency. ESAVE is an Essity program that comprises investments in energy efficiency, and engages employees in the daily improvement activities for energy use. The company cooperates with external stakeholders such as machinery suppliers to ensure energy efficiency, continuous improvements and the compliance of new equipment with the latest environmental requirements. In 2020, Essity increased its share of renewable energy at the company's plants in Europe.

### Transport

Essity's transportation activities primarily comprise the transportation of raw materials to our production facilities, and the delivery of finished products to our customers. Essity uses external suppliers for its transportation requirements. When possible, Essity prioritizes emissions-effective transport methods such as

barges, rail transportation and inter-modal combinations (rail/truck) for long-distance transportation. Sea freight represents the largest share of Essity's inbound transportation, while outbound transportation mainly comprises road and rail freight. Essity has a strong focus on and prioritizes vehicle types that meet the requirements of the latest environmental and emissions classes combined with the most up-to-date alternatives, such as CNG fuel and electric trucks.

Essity participates in various local projects and partnerships with customers and suppliers to jointly reduce emissions from transportation.

## Improving water use

People around the world experience uncertainty concerning access to water, known as water stress. This affects Essity's operations, from access to raw materials and production facilities to the communities in which our employees and consumers live.

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. Our target for water is that the company's tissue operations will reduce the level of suspended solids, the volume of water used and organic content (BOD) by 10% by 2020, with 2014 as reference year. This water is treated using mechanical and biological treatment systems.

## TCFD framework

Essity's reporting based on the recommendations of the framework of the Task Force on Climate-related Financial Disclosures (TCFD) can be found on pages 42–43. See also page 133 for a list of where more TCFD-related information can be found in the Annual and Sustainability Report.

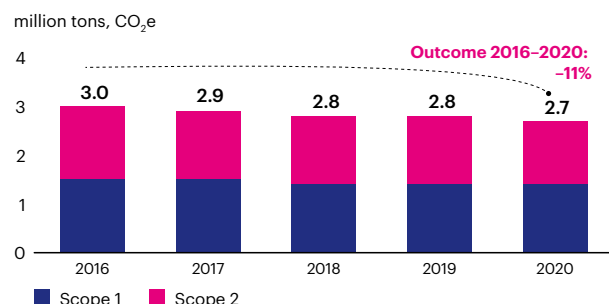
## EU taxonomy

For some time now Essity has worked with sustainability throughout the value chain: from responsible raw material sourcing, more efficient production with a lower climate footprint, and sustainable solutions to customers and consumers. The company's targets to reduce carbon emissions were approved by the Science Based Targets initiative in 2018. The target for 2030 for Scope 1 and 2 is to reduce emissions by 25%, and for Scope 3 by 18% with 2016 as the base year. Essity researches and invests in several ideas in sustainable technology in its manufacturing processes with the aim of reducing the company's environmental footprint. In 2021, for example, Essity will start up a pulp plant at its facility in Mannheim, Germany. The plant will produce high-quality pulp from wheat straw that will use less water, energy and chemicals as well as reducing carbon emissions. New offerings and business models are under development in Essity that contribute to a more sustainable society and reduce the environmental footprint of both the company and customers and consumers. Essity has been recognized as one of the world's 100 most sustainable companies by Corporate Knights at the annual meeting of the World Economic Forum in 2021. Essity is monitoring developments in the EU's taxonomy to identify and influence the extent to which the company's activities will be covered by the taxonomy, its provisions and definitions.

### Read more about Essity's results

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| H8. Fiber sourcing .....               | page 122 |
| H9. Air emissions: Scope 1 and 2 ..... | page 123 |
| H10. Air emissions: Scope 3 .....      | page 124 |
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### Emissions to air, Science Based Targets, Scope 1 and 2





## Employees

**Essity offers career opportunities in a leading global hygiene and health company that is breaking barriers to well-being in the world. Employees at Essity make a difference and improve people's quality of life by providing access to leading hygiene and health solutions and increasing knowledge in these areas through development initiatives and collaboration. Essity's employees are the company's main asset and we strive continuously to develop our corporate culture, expertise and leadership to create the best possible conditions for a successful Essity. All Essity employees are to be treated fairly and respectfully. We value and work continuously to increase diversity in the company.**

### Development is important

Everyone should understand their contribution to generating results. It is important that Essity's employees have the right skills and are committed to performing at their best. In so doing, employees can grow as individuals and contribute to the development of the company. Employees are expected to continuously learn and develop. Everyone should give and receive regular feedback. We strive to leverage the opportunities offered by digitalization to facilitate ways of working and processes. This is all supported by leaders who nurture a supportive and enabling environment. As a mean of developing functional skills, Essity provides a number of academies with comprehensive training programs for employees.

One aim of Essity's global human resources strategy is that the company should be perceived as an attractive workplace for existing and potential employees and that Essity is a safe and healthy workplace, based on ethical business practices. Essity recruits and develops employees in line with its strategic competence plan. The plan is based on Essity's strategy, demography and access to expertise and determines the measures that the company needs to take to meet future skills and resource requirements.

### Culture is key

Essity's corporate culture is central to its operations and is formulated in a set of "Beliefs and behaviors." These serve as a compass to offer guidance in how we are to act as Essity employees.

### Diversity and inclusion

As a global company, we value and work continually to increase diversity and inclusion. All employees are recruited, evaluated and promoted based on objective criteria without discrimination with regard to gender, marital status, origin, sexual orientation, religious faith, political affiliation, age, disability or other categories protected by law. This is stipulated in our Diversity Policy. Fundamental to our corporate culture is offering a diverse and inclusive work environment, which helps to strengthen the company and its results. Our diversity and inclusion strategy aims to continuously increase employees' sense of belonging and inclusion of different perspectives, and also seeks to attract and recruit employees motivated by the company's objective of breaking barriers to well-being in society. Everyone who works at Essity is to be treated with dignity and respect and have an opportunity to develop in their career.

To increase the proportion of women in leadership positions, a number of programs and networks are run to highlight and sup-

### Essity's "Beliefs and Behaviors"

We are committed to delivering superior results



We care for our customers, consumers, the environment and each other

#### Beliefs

We have the courage to take the lead



We collaborate across teams, functions and businesses

port women in senior positions. The power of diversity and leveraging people's different perspectives are key. The organization receives training in "unconscious bias" with the aim of reinforcing an inclusive approach. Local activities are being carried out in various countries to include our employees with disabilities. A diversity study is held every year and encompasses nationalities, age structure and gender distribution in general and in leadership roles. No unjustified pay differences should exist due to gender, age or background. This is regularly monitored and any unjustified differences are corrected on an annual basis.

### Caring through a safe and healthy work environment

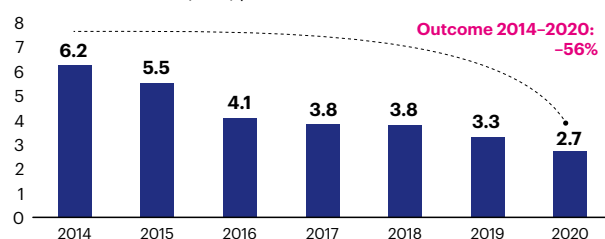
Working at Essity means the right to a safe and healthy work environment. Health and safety for our employees is fundamental to our business and is based on our Beliefs & Behaviors and our Code of Conduct. Nothing we do is worth injury and our highest priority is that everyone who works or visits us, arrives at production facilities and offices that are safe and healthy. Essity's aim is zero workplace accidents and we work proactively to address the issues of safety and health.

Essity implements the international standard OHSAS 18001 (Occupational Health and Safety Assessment Series) to ensure the use of uniform processes within the Group and that Essity's units continuously improve workplace-related health and safety. OHSAS specifies requirements regarding the organization's occupational health and safety management systems.

Essity has a global framework to increase focus and awareness on different perspectives of health and ensures local efforts to secure a healthy work environment. The framework is based on the World Health Organization's (WHO) definition of health and includes the physical, mental and social well-being aspects of the

### Accident frequency rate

Number of accidents ("LTA") per million hours worked





work environment. On this basis, Essity conducted self-assessments of health activities at the largest production facilities and offices in 2020. This forms the basis of local action plans. Essity offers health-enhancing activities, training in stress management and work-life balance, opportunities for remote working, flexible working hours and time off, where possible. The aim is to create a sustainable working life based on a healthy workplace.

### Remuneration and benefits

Essity offers a “Total Reward” concept. This entails a mix of monetary and non-monetary components. We offer market competitive remuneration comprising salary, variable remuneration, pension and other benefits. We also offer a good working climate, competent leadership, individual development plans and international development opportunities. Together, this forms our “Total Reward” concept. The company follows local salary structures and respects internationally established rules for minimum wages and reasonable compensation. The company works continually to limit and prevent unjustified pay differences and other differences in employment conditions. The programs for variable remuneration are for most employees at Essity.

### Employee relations

Transparent communication is fundamental to the trust between the company, its employees and union representatives. Essity recognizes the right of every employee to join a trade union and participate 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 company’s results, forthcoming changes, and health and safety and employment terms and conditions. Essity has an agreement with the industry union IndustriAll. When there is no union representation, Essity establishes other channels where possible, such as an employee council.

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

### Attractive employer

The basis for Essity to ensure access to competence is that the company is considered to be an attractive workplace, both internally and externally. Based on annual competence planning, we strive to attract potential employees through university events

and extensive activity in social media. Knowledge of Essity and the company’s attractiveness has been gradually growing since 2017. We have been externally recognized many times for our work on Employer Branding. We offer a manufacturing apprenticeship program to ensure the long-term supply of talent. This takes place in partnership with local schools. Furthermore, we offer a new program to help recent graduates to find their first job and ensure sufficient talent in critical areas. Essity’s “GO! Program” is a two-year program in which participants have a combination of project work, development activities and rotation, while also working in proper job. The annual Essity GO! program has 30–50 participants every year.

### Leadership for success

Everyone at Essity practices leadership. Regardless of whether you are in charge of an operation, a team, or yourself, leadership skills are needed that ensure success in today’s complex and rapidly changing environment.

To enable all employees to perform at their best, continuous dialogues are held between line managers and employees aimed at deciding goals, coaching and development. A digital platform with global processes is used for setting goals, individual development, recruitment, introduction and salary review. The platform is to ensure compliance and to realize Essity’s HR strategic framework.

Continuous development of leadership is decisive to our continued success. To achieve this, Essity runs a leadership academy comprising 20 global training programs for managers at various levels or with specific competencies. All new managers take part in mandatory introduction training aimed at creating a shared basis for leadership at the company. In addition to the programs, training is offered through coaching, virtual seminars and leadership publications.

Our leadership platform is at the core of all our leadership activities and encompasses the competences and expectations required to contribute toward Essity’s results and culture. Competences form the basis of recruiting and developing employees and thus creating the best possible conditions to deliver on Essity’s targets.

#### Read more about Essity’s results

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## Business ethics and human rights

**Essity impacts the lives of many people. It is essential that we conduct our business in a responsible manner. Essity is to act with integrity toward all its stakeholders. At work, in the market and in society.**

Essity's Code of Conduct describes how employees are to act, how the company does business, stakeholder expectations of Essity and Essity's commitment to human rights. The Code is based on international standards such as the United Nations Guiding Principles on Business and Human Rights (UNGP), the ILO Core Conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact Principles and related legislation.

All of Essity's wholly owned subsidiaries are bound by the Code of Conduct. Essity expects its joint-venture companies to implement a Code of Conduct and guidelines equivalent to those stipulated in Essity's Code. To ensure that all of Essity's employees comply with the Code of Conduct, it is included in all onboarding programs throughout the company. Essity also has the target of all new employees receiving training in the Code when they join the company. In addition to general training, there is a program for compliance with competition rules, which is compulsory for employees in particularly exposed positions. To address corruption risks, Essity has an anti-corruption program that includes control documents, training programs, third-party audits and risk analyses. Essity's Compliance & Ethics department is responsible for the Code of Conduct training program and for the anti-corruption program.

All of our suppliers and other business partners are expected to follow principles equivalent to those included in the company's Code of Conduct. Essity also has a Global Supplier Standard to routinely promote responsible business operations and respect for human rights in the company's supply chain. This standard contains requirements concerning quality, product safety, the environment and chemicals. It also contains a Code of Conduct for Suppliers that includes Essity's expectations as regards human rights and employee relations as well as health and safety. Compliance with these principles is a key factor in the selection of business partners.

### *Risk analysis*

Essity conducts regular assessments and analyses of risks related to human rights, which comply with the UNGP. Corruption risks are followed up and analyzed regularly within the scope of the anti-corruption program.

Risk analyses are based partly on assessments carried out by Transparency International and the Supplier Ethical Data Exchange (Sedex) tool. Essity's own wholly owned plants and global and regional strategic suppliers of raw materials and finished products in locations defined by Sedex as high-risk countries are audited with a focus on health and safety, human rights, employment conditions and corruption.

### *Compliance and monitoring*

Systematic activities, such as audits and other monitoring processes, take place to ensure compliance. Compliance with the Code of Conduct and Essity's business practice is ensured by audits conducted by the Internal Audit unit. The operations to be audited are determined by such factors as a country's social



**92%**

of Essity's new employees underwent training in Essity's Code of Conduct in 2020



**92%**

of Essity's suppliers were in compliance with our Global Supplier Standard and defined demands on human rights in 2020

and environmental risks, the outcome of the self-assessments in Sedex 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 and 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 result 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 encourages an open and honest culture in which all employees can report suspicions of violations of the Code or laws in good faith. 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.

Essity requires its suppliers to conduct self-assessments on labor standards, the environment, business ethics as well as health and safety through the Sedex database. Purchases from suppliers in countries classified as high risk 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. Essity's own wholly owned plants that have conducted self-assessments in Sedex are available to Essity's customers who are also part of Sedex.

Essity's stakeholders often have specific questions about how we conduct our business. Essity has developed positions in the form of position papers in which the company states its views on key topics. These are available at [essity.com/sustainability](https://essity.com/sustainability).

### Read more about Essity's results

|                                        |          |
|----------------------------------------|----------|
| H2. Business ethics.....               | page 119 |
| H7. Supply chain and human rights..... | page 121 |

# Materiality analysis

Every second year, Essity conducts a survey of our sustainability work among our stakeholders. This is used as a basis for our materiality analysis, together with continuous dialogue in various forms with our stakeholders. The analysis provides insight into the subject areas our stakeholders consider to be material. The result is part of supporting documentation in Essity's strategy work.

The latest survey was conducted in 2019 and the result showed increased interest in topics such as climate change and waste/circularity as well as plastics. These topped the list, together with innovation and business ethics, which remain the topics that the stakeholders consider most important.

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 (GRI), 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 remained

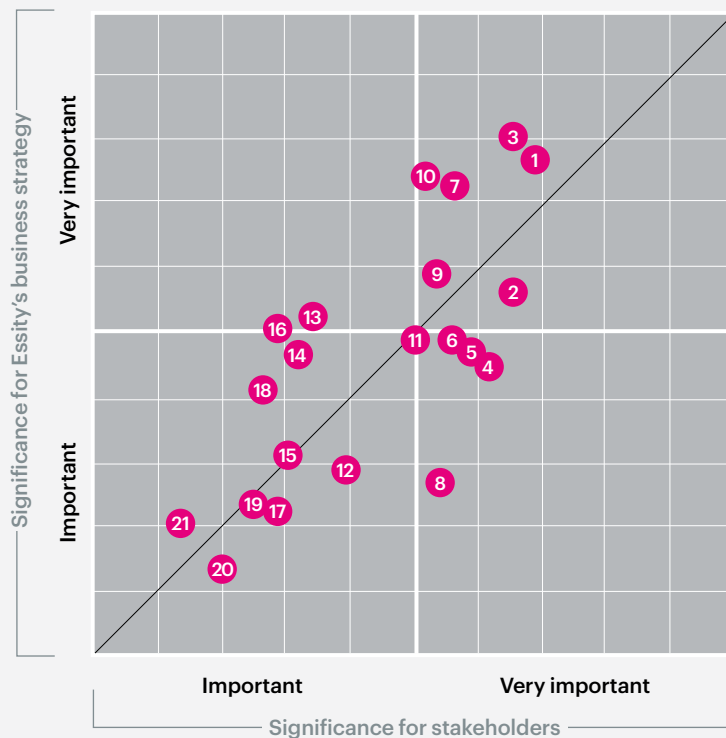
unchanged from previous years so as to facilitate analysis and comparison over time. A number of the subjects were reformulated to cover a larger area. A few of them are new.

Last year's web-based survey 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 was 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.

A comprehensive account of all topics in the survey can be found at [essity.com/sustainability](https://essity.com/sustainability).

## Essity's materiality analysis



### The stakeholders' ranking of the subject areas

|                                      | Read more on pages                |
|--------------------------------------|-----------------------------------|
| 1 Innovation                         | 4, 17, 45, 120                    |
| 2 Climate change                     | 7, 11, 21, 36, 42-43, 47, 123-124 |
| 3 Business ethics                    | 38, 50, 119-122                   |
| 4 Waste/circularity and plastics     | 36, 46-47, 124-125                |
| 5 Transparency                       | 133-134                           |
| 6 Safe products                      | 45, 121                           |
| 7 Customer and consumer satisfaction | 38, 45, 121                       |
| 8 Water                              | 21, 36, 47, 125                   |
| 9 Health, well-being and equality    | 21, 45, 48, 126-127               |
| 10 Human capital                     | 14, 20, 48-49, 126                |
| 11 Human rights                      | 38, 48, 50, 119-120               |
| 12 Fiber sourcing                    | 20, 46, 122                       |
| 13 Brands                            | 1, 24-29                          |
| 14 Corporate governance              | 52-61                             |
| 15 Efficient supply chain            | 19, 121-122                       |
| 16 Market positions                  | 11-13                             |
| 17 Risk management                   | 36-41                             |
| 18 Digitalization                    | 6, 14, 18                         |
| 19 Distribution and accessibility    | 16, 44, 47, 124                   |
| 20 Tax                               | 85-86                             |
| 21 Cyber and information security    | 39                                |