

Operations and structure

Up to and including 2021, Essity reported its operations according to three business areas: Personal Care, Consumer Tissue and Professional Hygiene. Personal Care comprised the product categories of Incontinence Products, Medical Solutions, Baby Care and Feminine Care, and included incontinence products, baby diapers, pads, panty liners, tampons, washable absorbent underwear, reusable menstrual cups, 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 included toilet paper, household towels, handkerchiefs, facial tissues, wet wipes, napkins and face masks. Professional Hygiene included complete hygiene solutions, including toilet paper, paper hand towels, napkins, microfiber cloths, cleaning and wiping products, soap, lotion, sanitizer, dispensers, face masks and digital solutions, such as 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, which markets and sells products in the categories of consumer tissue, baby care, feminine care and incontinence products retail in Europe, the Middle East and Africa.
- Health & Medical Solutions, which markets and sells products in the category of incontinence products in Europe, North America, the Middle East and Africa, and markets and sells products in the category of medical solutions in Asia, Europe, North America, the Middle East and Africa.
- Latin America, which 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, which markets and sells complete hygiene solutions as well as service and maintenance to the business area's customer segments in Europe, North America, the Middle East and Africa.

The financial reporting of these four business units is presented under one or more of the Personal Care, Consumer Tissue or

Professional Hygiene business areas in the company's external financial reporting.

During the year, Essity acquired all of the shares in Asaleo Care, which was listed on the Sydney Stock Exchange and markets and sells products primarily in professional hygiene as well as the categories of incontinence products and feminine care in Australasia (Australia, New Zealand and some of the Pacific Islands). Following the acquisition, the business is being operated as an independent unit under the name Essity AustralAsia.

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

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

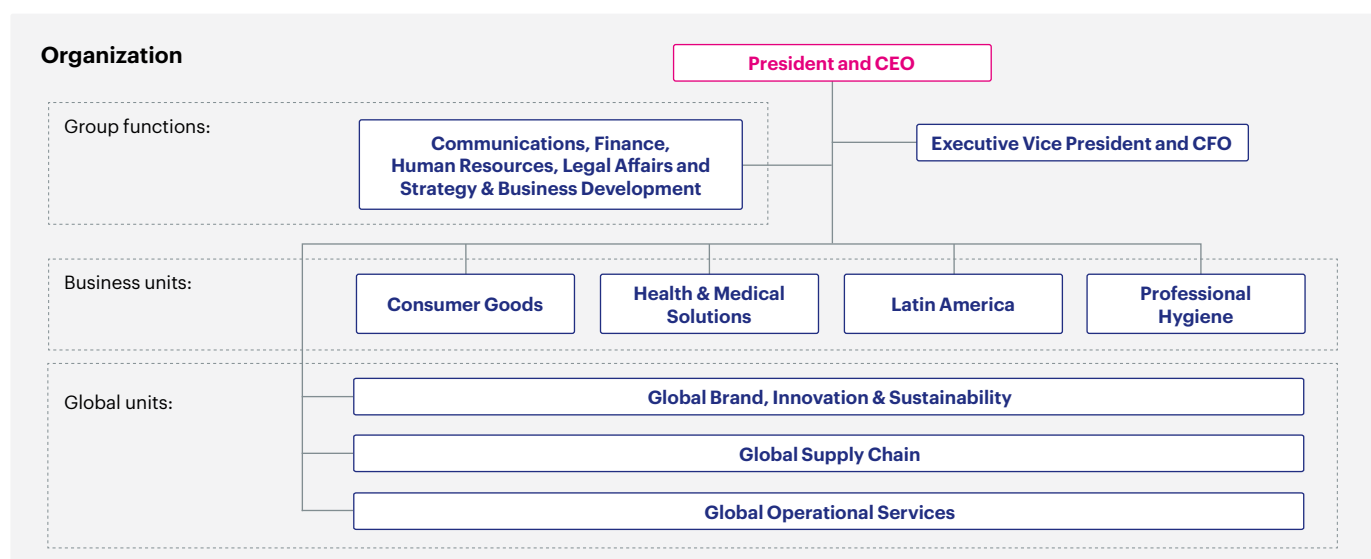
Essity has five Group functions:

- Communications
- Finance
- Human Resources
- Legal Affairs
- Strategy & Business Development

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

Events during the year

Essity has a new sales growth target of more than 5%, which includes both organic sales growth and acquisitions. This replaces the previous target of organic sales growth of more than 3%. New and updated sustainability targets have been presented, including a commitment to develop targets to reach net-zero emissions of greenhouse gases by 2050 at the latest. This includes raising the ambition level of Essity's current Science Based Targets. Other updated targets include sustainable innovations, occupational safety and responsible sourcing.



Essity finalized the acquisitions of Asaleo Care, Productos Familia S.A., ABIGO Medical AB, AquaCast Liner, Hydrofera and the sports tape brands Coach, Elastikon and Zonas.

In the Consumer Tissue business area, Essity has begun work to create a new Consumer Tissue Private Label Europe division.

Essity has decided on new business areas from January 1, 2022. The business areas are Health & Medical, Consumer Goods and Professional Hygiene. Health & Medical comprises the categories Incontinence Products Health Care and Medical Solutions;

Consumer Goods the categories Incontinence Products Retail, Baby Care, Feminine Care and Consumer Tissue; and Professional Hygiene the categories AfH Tissue, Skin Care and Cleaning & Wiping.

Events after year-end

On February 2, 2022, Essity announced that the company had acquired Legacy Converting, Inc., a USA-based company providing professional wiping and cleaning products.

Acquisitions, investments and divestments

Acquisition of distribution rights to Sorbact in Australia and New Zealand

On April 6, 2021, Essity announced that it had acquired the distribution rights to the wound care technology Sorbact® in Australia and New Zealand from the Australian company Bayport Brands. In 2020, sales of Sorbact® in the region amounted to AUD 1.7m (approximately SEK 11m).

Acquisition of Asaleo Care

On July 1, 2021, Essity announced that it had finalized the acquisition of the remaining 63.8% of the shares in Asaleo Care, listed on the Australian Securities Exchange, for AUD 1.40 cash per share. The consideration implies an equity value on a 100% basis of approximately AUD 760m (approximately SEK 4.9bn) and an enterprise value of AUD 855m (approximately SEK 5.5bn). Essity AustralAsia, which is the name of the regional unit, was consolidated into Essity's accounts as of July 1, 2021. In 2020, Asaleo Care reported sales of AUD 419m (approximately SEK 2.7bn) and underlying EBITDA of AUD 89m (approximately SEK 574m). Asaleo Care had approximately 700 employees and three manufacturing facilities.

Acquisition of ABIGO Medical AB

On July 2, 2021, Essity announced that it had finalized the acquisition of the remaining 25% of the shares in ABIGO Medical AB and the company is now a wholly owned subsidiary of Essity in the Medical Solutions product category. Essity acquired 75% of ABIGO Medical in February 2020. The shares were acquired from founder and chairman of the board Jan G. Smith at a valuation of SEK 900m for 100% of the company on a debt-free basis.

Acquisition of Productos Familia S.A.

On August 31, 2021, Essity finalized the acquisition of 45.8% of the shares in the Colombian hygiene company Productos Familia S.A. ("Familia"). The purchase price amounted to SEK 5,961m on a debt-free basis. Essity now owns 95.8% of Familia. Familia is headquartered in Medellín, Colombia, and has a strong presence in Latin America. The company primarily operates in Personal Care in addition to Consumer Tissue and Professional Hygiene. Familia is already consolidated in Essity's accounts, and reported sales in 2020 of SEK 6,950m, an adjusted EBITDA of SEK 1,419m and adjusted EBITA of SEK 1,170m, equivalent to an adjusted EBITA margin of 16.8%.

Acquisition of sports tape brands

On November 1, 2021, Essity announced that it had acquired the professional sports tape brands Coach, Elastikon and Zonas, which are established premium products in the USA market. The purchase price is not material and is not disclosed.

Acquisition of AquaCast Liner

On December 21, 2021, Essity announced that it had acquired AquaCast Liner, a specialist orthopedics company that supplies waterproof cast liners in the USA market. The purchase price is not material and is not disclosed.

Acquisition of Hydrofera

On December 29, 2021, Essity announced that the company had acquired Hydrofera, which offers technology and products in advanced wound care in the USA and Canadian markets. The purchase price amounted to USD 116m (approximately SEK 1.1bn) with a potential additional earnout amount of USD 15m (approximately SEK 140m) on a cash and debt-free basis. During the first nine months of 2021, Hydrofera had net sales of USD 20.7m (SEK 176m) with EBITDA of USD 5.9m (SEK 50m), EBITA of USD 5.6m (SEK 48m), corresponding to an EBITA margin of 27.2%. Sales growth for the first nine months of 2021 amounted to 22%. In 2020, the company reported net sales of approximately USD 23.5m (SEK 216m) with EBITDA of USD 4.6m (SEK 42m) and EBITA of USD 4.3m (SEK 39m), corresponding to an EBITA margin of 18.1%. Sales growth in 2020 amounted to 13%. The acquisition is expected to contribute to Essity's earnings per share in 2022.

Investments to reduce climate impact

On July 6, 2021, Essity announced that the company is investing approximately EUR 11m (approximately SEK 110m) in its Hon-douville tissue production facility in France. The investment will enable the extraction of 98% of the paper fibers contained in food and beverage cartons and enable Essity to recycling approximately 24,000 tons of packaging annually. The improved recycling system will be fully operational during the first half of 2022.

On October 6, 2021, Essity announced that the company is investing in enhanced efficiency at the company's site in Kawerau, New Zealand, which will include the world's first tissue machine running a fully geothermal steam drying process. Together with a reduction in pulp consumption, reduced waste and elimination of the burning of natural gas on the machine, the improvements will contribute to a reduction of carbon emissions by 23% from the Kawerau site. The investment of approximately AUD 15m (approximately SEK 95m) is partly funded through the Government Investment in Decarbonizing Industry (GIDI) Fund, administered by EECA (Energy Efficiency and Conservation Authority) in New Zealand.

On October 27, 2021, Essity announced that it is launching a pilot project to run a paper machine CO₂-free with hydrogen from renewable energy at the company's production facility in Mainz-Kostheim, Germany. Essity's investment in the project amounts to EUR 4m (approximately SEK 40m).

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 2021, the Parent company recognized operating income of SEK 312m (265) and profit before appropriations and tax of SEK 2,280m (2,605). Investments in property, plant and equipment totaled SEK 1m (1) during the year. Cash and cash equivalents at year-end amounted to SEK 0m (0).

Research and development (R&D)

Research and development (R&D) costs during the year amounted to SEK -1,471m (-1,559), corresponding to about 1.2% of consolidated net sales. R&D is coordinated and conducted from a global perspective. Product development is carried out in close cooperation with the local units, as well as through direct collaboration with customers.

Holdings of treasury shares

Essity Aktiebolag (publ) holds no treasury shares.

Share distribution

In 2021, 320,104 Class A shares were converted to Class B shares. The proportion of Class A shares was 8.7% at year-end.

Dividend

The Board of Directors proposes an increase in the dividend of 4% to SEK 7.00 (6.75) per share or SEK 4,916m (4,741). The record date for entitlement to receive dividends is proposed as March 28, 2022 and payment is expected to be made on March 31, 2022. 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 35–54 and 123–131 in the Board of Directors' Report. The company's business model can be found on page 13. This sustainability report for Essity Aktiebolag (publ) encompasses the entire Group. Further information on the reporting principles for sustainability can be found in Note H1, page 123.

Guidelines for remuneration of senior executives

Guidelines agreed by the most recent Annual General Meeting (AGM) can be found in Note C2 on pages 91–93. The company's application of the guidelines can be found in the remuneration report on pages 140–141 and in Note C2.

The Board has decided to propose the following new guidelines to the 2022 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 and long-term incentive program targets, which shall contribute to the objectives established by the company 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 100 per cent of annual fixed salary. The maximum variable remuneration level shall be determined per individual, taking into account the total remuneration in relation to the specific role, the local market, the terms of employment or the individual performance.

Short-term performance targets shall include either organic growth, product development, earnings, cash flow, capital efficiency, sustainability, return or individual targets or a combination thereof. Long-term performance targets shall include either sustainability, total shareholder return (TSR) or a combination thereof and – in order to create a long-term perspective – be combined with requirements for senior executives to use the compensation net of tax to invest in the Essity share with a minimum holding period of three years.

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 applicable 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. 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 may 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.

Description of significant changes compared to previous guidelines

Other than editorial changes, these guidelines have been updated with respect to the Board of Directors' proposal on implementation of a new cash-based long-term incentive program.

These guidelines shall apply from the 2022 Annual General Meeting until further notice."

For information on the company's calculated expenses for remuneration of senior executives, see Note C2 on pages 91–93.



Net sales and earnings

Net sales

Net sales increased 0.1% compared with the corresponding period a year ago to SEK 121,867m (121,752). Sales growth, including organic sales growth and acquisitions, amounted to 4.5%. Organic sales growth, which excludes exchange rate effects, acquisitions and divestments, amounted to 3.3%, of which volume accounted for 1.8% and price/mix for 1.5%. All business areas reported organic sales growth. Sales were negatively impacted by the COVID-19 pandemic and the related lockdowns and restrictions, primarily within Professional Hygiene. Organic sales growth in mature markets amounted to 0.0% and in emerging markets to 8.8%. Emerging markets accounted for 38% of net sales. Exchange rate effects reduced net sales by 3.6%. The acquisition of Asaleo Care increased net sales by 1.2%. Divestments and deconsolidation reduced net sales by 0.8%. Organic sales growth amounted to 1.3% compared with 2019.

Earnings

The Group's adjusted gross margin decreased by 3.6 percentage points year on year to 28.9% (32.5). Higher costs for raw materials, energy and distribution reduced the margin by 4.8 percentage points. The margin was positively impacted by higher volumes, higher selling prices, a better mix and cost savings. Continuous cost savings amounted to SEK 698m.

The Group's adjusted EBITA margin decreased 3.3 percentage points to 11.2% (14.5). Sales costs, excluding marketing costs, were lower also as a share of net sales. Marketing costs were higher but in line with the corresponding period a year ago as a share of net sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) decreased 22% (19% excluding currency translation effects, acquisitions and divestments) to SEK 13,680m (17,626).

Items affecting comparability amounted to SEK 371m (–59) and were positively affected by the remeasurement of Essity's previous holding of 36.2% in Asaleo Care on July 1 in conjunction with the acquisition of the remaining shares, yielding a positive revaluation

effect of SEK 706m. Other costs are mainly related to transaction costs for the acquisitions of Asaleo Care and Productos Familia S.A., as well as restructuring costs.

Financial items decreased to SEK –662m (–958), mainly due to lower interest.

Adjusted profit before tax decreased 23% (20% excluding currency translation effects, acquisitions and divestments) and amounted to SEK 12,166m (15,859).

The tax expense, excluding effects of items affecting comparability, was SEK 2,803m (4,054).

Adjusted profit for the period decreased 21% (18% excluding currency translation effects, acquisitions and divestments) to SEK 9,363m (11,805).

Profit for the period decreased 16% (13% excluding currency translation effects, acquisitions and divestments) to SEK 9,810m (11,747). Earnings per share were SEK 12.27 (14.56). The adjusted earnings per share were SEK 12.50 (15.45).

Key figures

The adjusted return on capital employed¹⁾ was 12.0% (15.7).

The adjusted return on equity¹⁾ was 14.3% (18.3).

Summary income statement

SEKm	2021	2020	2019
Net sales	121,867	121,752	128,975
Adjusted EBITA ¹⁾	13,680	17,626	15,840
EBITA	14,051	17,567	15,127
Adjusted operating profit ¹⁾	12,828	16,817	15,062
Items affecting comparability	371	–59	–713
Operating profit	13,199	16,758	14,349
Financial items	–662	–958	–1,309
Adjusted profit before tax ¹⁾	12,166	15,859	13,753
Profit before tax	12,537	15,800	13,040
Adjusted tax ^{1) 2)}	–2,803	–4,054	–2,987
Tax ²⁾	–2,727	–4,053	–2,828
Adjusted profit for the period ¹⁾	9,363	11,805	10,766
Profit for the period	9,810	11,747	10,212

¹⁾ Excluding items affecting comparability.

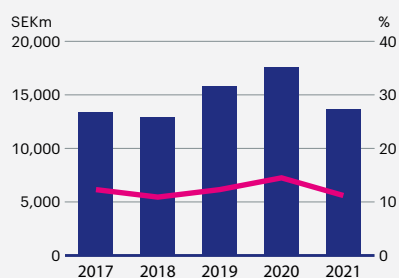
²⁾ 2019: A revaluation of deferred tax had a positive impact on the tax rate of SEK +253m.

Net sales, share of Group



● Personal Care, 38%
● Consumer Tissue, 40%
● Professional Hygiene, 22%

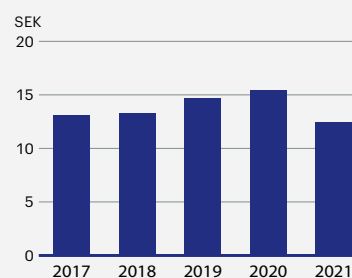
Adjusted EBITA¹⁾ and adjusted EBITA margin¹⁾



■ Adjusted EBITA¹⁾
— Adjusted EBITA margin¹⁾

¹⁾ Excluding items affecting comparability.

Adjusted earnings per share¹⁾



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

Cash flow and financing

The operating cash surplus amounted to SEK 20,471m (24,653). The cash flow effect of changes in working capital was SEK -844m (-810). Working capital was negatively impacted by an increase in trade receivables as a result of higher sales and increased inventory value due to higher raw material prices. Investments in non-current assets, net, excluding investments in operating assets through leases, amounted to SEK -7,304m (-6,439). Operating cash flow before investments in operating assets through leases amounted to SEK 11,598m (16,427). Operating cash flow was SEK 11,118m (16,018).

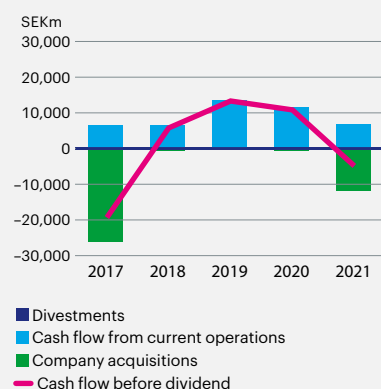
Financial items decreased to SEK -662m (-958), mainly due to lower interest.

Tax payments had an impact on cash flow of SEK -3,634m (-3,917).

The net sum of acquisitions and divestments was SEK -11,800m (-380). Net cash flow totaled SEK -10,193m (6,046).

Net debt increased SEK 12,745m during the period and amounted to SEK 55,433m. Excluding pension liabilities, net debt amounted to SEK 52,723m. Net cash flow increased net debt by SEK 10,193m. 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 147m. Exchange rate movements increased net debt by SEK 2,020m. Investments in non-operating assets through leases increased net debt by SEK 385m. The debt/equity ratio was 0.81 (0.67). Excluding pension liabilities, the debt/equity ratio was 0.77 (0.63). The debt payment capacity was 29% (46). Net debt in relation to adjusted EBITDA amounted to 2.77 (1.76).

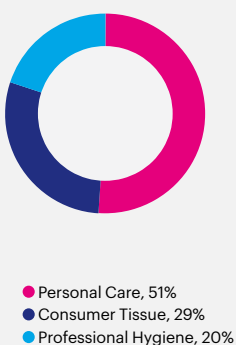
The Group's cash flow



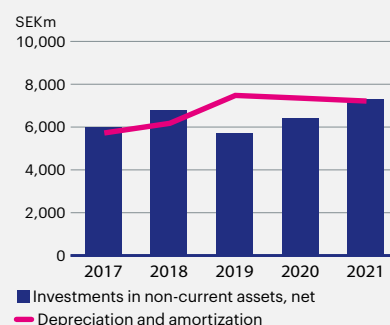
Operating cash flow statement

SEKm	2021	2020	2019
Operating cash surplus	20,471	24,653	22,932
Change in working capital	-844	-810	359
Investments in non-current assets, net	-7,304	-6,439	-5,707
Restructuring costs, etc.	-725	-977	-1,494
Operating cash flow before investments in operating assets through leases	11,598	16,427	16,090
Investments in operating assets through leases	-480	-409	-451
Operating cash flow	11,118	16,018	15,639
Financial items	-662	-958	-1,309
Income taxes paid	-3,634	-3,917	-1,130
Other	72	32	8
Cash flow from current operations	6,894	11,175	13,208
Acquisitions of Group companies and other operations	-11,813	-747	-143
Divestments of Group companies and other operations	13	367	220
Cash flow before transactions with shareholders	-4,906	10,795	13,285
Private placement to non-controlling interests	25	64	4
Dividend to non-controlling interests	-571	-423	-336
Dividend	-4,741	-4,390	-4,038
Net cash flow	-10,193	6,046	8,915

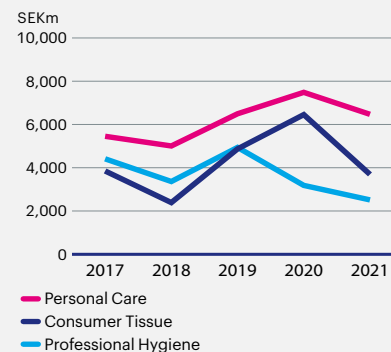
Operating cash flow, share of Group



Investments in non-current assets



Operating cash flow by business area



Financial position

Assets and capital employed

The Group's total assets increased 13% compared with the preceding year, amounting to SEK 175,050m (154,645). Non-current assets increased SEK 12,518m compared with the preceding year to SEK 124,047m (111,529), of which property, plant and equipment amounted to SEK 58,918m (53,631) and intangible assets to SEK 59,609m (50,898).

Current assets totaled SEK 51,003m (43,116). Working capital amounted to SEK 11,157m (7,146). Capital employed was 17% higher and totaled SEK 123,934m (106,030).

Equity

The Group's equity increased by SEK 5,165m during the period, to SEK 68,507m (63,342). Net profit for the period increased equity by SEK 9,810m. Equity decreased due to dividends to shareholders of SEK 5,269m. Equity decreased net after tax by SEK 161m 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 2,071m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 4,641m. Equity decreased by SEK 5,961m due to the acquisition of the non-controlling interest in Productos Familia S.A. Other items increased equity by SEK 34m.

Financing

The Group's interest-bearing gross debt amounted to SEK 54,419m (43,353) at year-end. The maturity period was 4.1 (3.1) years.

Net debt increased SEK 12,745m during the period compared with the same point in time last year and amounted to SEK 55,433m. Excluding pension liabilities, net debt amounted to SEK 52,723m. Net cash flow increased net debt by SEK 10,193m. 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 147m. Exchange rate movements increased net debt by SEK 2,020m. Investments in non-operating assets through leases increased net debt by SEK 385m.

Key figures

The debt/equity ratio was 0.81 (0.67). Excluding pension liabilities, the debt/equity ratio was 0.77 (0.63). The visible equity/assets ratio was 34% (35). Adjusted return on capital employed and equity was 12.0% (15.7) and 14.3% (18.3), respectively. The capital turnover rate was 1.1 (1.1). At year-end, working capital amounted to 9% (6) of net sales.

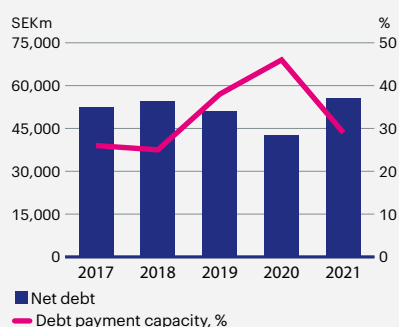
Consolidated capital employed by currency, SEKm

	2021	%	2020	%	2019	%
EUR	46,001	37	43,218	41	43,985	39
USD	20,211	16	17,458	16	20,173	18
CNY	19,904	16	17,750	17	17,376	15
MXN	5,988	5	5,519	5	6,570	6
GBP	5,843	5	4,794	5	5,432	5
Other	25,993	21	17,291	16	20,205	17
Total	123,940	100	106,030	100	113,741	100

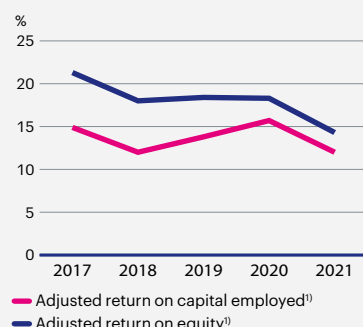
Consolidated balance sheet

SEKm	2021	2020	2019
Intangible assets	59,609	50,898	55,763
Property, plant and equipment	58,918	53,631	56,900
Other non-current assets	5,520	7,000	7,651
Total non-current assets	124,047	111,529	120,314
Current assets	51,003	43,116	41,981
Total assets	175,050	154,645	162,295
Equity	68,507	63,342	62,801
Non-current liabilities	59,648	50,230	56,214
Current liabilities	46,895	41,073	43,280
Total equity and liabilities	175,050	154,645	162,295
Working capital	11,157	7,146	6,782
Capital employed	123,940	106,030	113,741
Net debt	55,433	42,688	50,940

Net debt and debt payment capacity

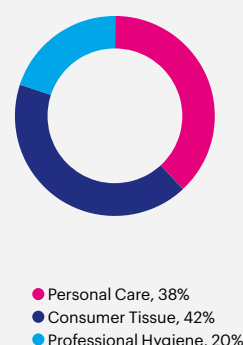


Adjusted return on capital employed and equity¹⁾



¹⁾ Excluding items affecting comparability.

Capital employed, share of Group



Risks and risk management

Essity is exposed to a number of strategic, operational and financial business risks, which could have 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 business 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 business risks being managed primarily by Essity's business units with clear central coordination and follow-up. Responsibility for certain specific risks, such as financial risks, insurable operational risks, information security, and ethics and human rights, is managed centrally.

Essity's financial risk management is centralized. The Group's internal bank handles 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 financial risks are compiled and continuously monitored. Responsibility for insurable operational risks is managed by the Group's insurance department.

Identification of business risks and risk management are a key part of the annual strategy process. 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 respective risk, and measures for how these shall be mitigated and followed up.

Essity has an internal audit function, which ensures up that the 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, land, biodiversity and the climate. Essity is subject to extensive environmental regulations. More stringent environmental requirements, remediation of the environment in connection with plant closures or breaches of permits could incur higher costs.

► Read more about these risks on pages 41–42 and 46–49.

Action

Essity's strategy and sustainability targets 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. Essity has integrated a risk assessment of biodiversity into its risk management process. 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 continuously to reduce the volume of production waste.

► Read more about Essity's actions on pages 41–42 and 46–49.

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. Lockdowns, more stringent border security measures or other restrictions may cause disruptions at our production facilities or in the supply chain. More extensive outbreaks of disease may also result in a temporary fall in demand for some of our products and changed consumer behavior.

Action

In connection with extensive outbreaks of disease, the highest priority is to take action to safeguard the health of employees. Essity takes a series of measures adapted to the local operations to reduce the risk of infection. Where necessary, the company also modifies its solutions for sourcing of raw materials, storage and logistics, and has increased digital interaction.

Changes in demographics, consumer behavior and preferences

Risk

Changing demographics, consumer behavior and preferences 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.

Action

Customer and consumer insight 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 consumers, customers, experts and opinion formers to improve our offering.

Political decisions and regulatory measures

Risk

Essity conducts operations in many 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 the business.

Essity participates in various national and international industry organizations, as well as in other types of partnerships. The aim is to gain early knowledge of, and to contribute actively with expertise and solutions to, the development of areas of significance to our operations. 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.

Competition

Risk

Essity is subject to considerable competition from other industry players offering similar products. Essity is also exposed to the risk that alternative products, solutions or business models that meet customer or consumer needs may replace Essity's offering, which risks jeopardizing the company's position in the market.

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, and to ensure that they are provided in the relevant sales channels.

➤ Read more about innovation on page 16.

Dependence on major customers and sales channels

Risk

Essity's products are sold through retailers, pharmacies, e-commerce, distributors and resellers. Retail represents 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.

Action

Essity's customer structure is relatively dispersed, with customers in many different geographies and areas of business. In 2021, Essity's ten largest customers, most of them retail companies and distributors, accounted for 19.6% 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 by increasing the share of e-commerce and also by aligning to the new and changing purchasing patterns.

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

Essity strives to create and maintain a balance between loss-prevention activities and insurance coverage. Essity invests continuously in loss-prevention measures. These efforts are conducted in accordance with established guidelines that include repeated risk inspections carried out by external risk engineers. Other important elements of loss-prevention activities are maintenance of production plants and machinery, staff training, and orderliness. 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.

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. Within certain areas, such as corruption and competition regulations, Essity has an in-depth program for risk evaluations, audits of third parties 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

Through annual staffing, competency and succession planning, Essity ensures that employees are recruited and that these remain with the company and develop the right skills. Essity continuously strives to build a reputation for the company as an attractive employer, highlighting health and safety in the workplace, health promotion, market-based and competitive forms of employment, continuous learning and the possibility to take on new challenges in the Group. A modern and attractive corporate culture also plays a highly significant role in the recruitment of employees.

➤ Read more about Essity's actions on pages 50–52.

Legal risks

Risk

Legal risks comprise various risks in, to some extent, diverse areas. Amended legislation, violations of laws in the operations or errors in any agreements signed by Essity, are examples of legal risks that could have negative financial implications for Essity. In certain instances, they may also entail 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, 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. A sudden loss of key input goods 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 that 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. Key suppliers are assessed through questionnaires, on-site visits or independent audits.

Information and IT

Risk

Essity is dependent on IT systems and information security. Disruptions or faults in critical systems, as well as the increasing prevalence of cyber-attacks, may have a direct impact on production and other important business processes. Errors in financial systems may affect the company's reporting of results.

Action

Essity has a management model for IT that contains governance, standardized processes and an organization for information security. Actions within the areas of information and cyber security are carried out on the basis of continuous risk assessments. Technical protection, such as preventive, detective, responsive and restorative measures are implemented, in addition to regular security training courses for each employee. Standardized procedures are in place for implementing and changing systems and IT services, as well as for daily operations. The head of Global Operational Services, who is a member of the company's Executive Management Team, is responsible for managing IT and information security-related risks.

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 manages the energy price risk related to electricity and natural gas centrally. 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, in part, through 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 2021, Essity purchased about 5 TWh (5; 5) of electricity and about 7 TWh (7; 8) of natural gas.

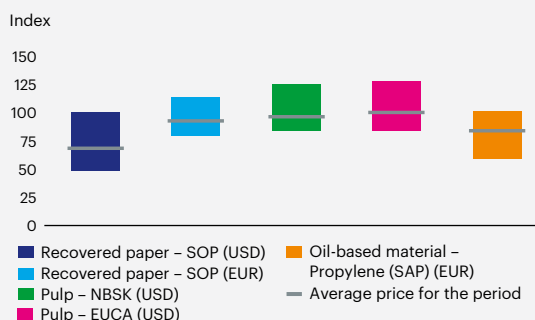
The graph shows Essity's price hedges in relation to forecast consumption of electricity and natural gas for the next three years. The graph includes financial hedges and hedging effected via supply contracts.

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) 2011–2021 per input goods



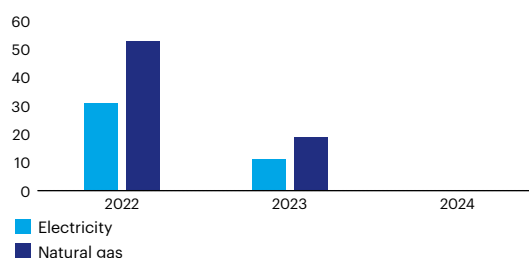
Action

Fiber (pulp and recovered paper) is a significant cost, mainly in the Consumer Tissue and Professional Hygiene business areas. Essity is evaluating alternative types of fiber, such as straw from wheat 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 in the Personal Care business area 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 142.

› For further information concerning financial price hedges, see Note E6 Derivatives and hedge accounting on page 104.

Energy price hedges in relation to forecast consumption, December 31, 2021



Currency

Risk

Transaction exposure

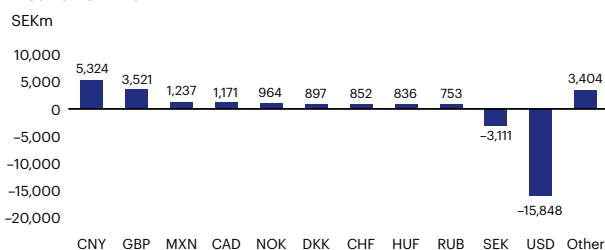
Transaction exposure is the risk that exchange rate movements in export revenues as well as import expenses and other costs could negatively impact the Group's operating profit and the cost of non-current assets.

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 2.0 months, CNY 0 months and GBP 1.7 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 2022.

Net flows in 2021



» For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting on page 104.

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 its long-term currency sensitivity. The largest exposures are denominated in EUR, CNY, USD and GBP.

Currency	Sales %	Costs %	Adjusted EBITA ¹⁾ SEKm	Average rate 2021
EUR	36	35	6,108	10.1410
CNY	13	8	7,265	1.3291
USD	13	25	-11,076	8.5718
GBP	8	7	1,712	11.7929
MXN	5	5	379	0.4228
COP	3	3	516	0.0023
SEK	3	3	-318	1.0000
RUB	2	2	696	0.1164
Other	17	12	8,398	
Total	100	100	13,680	

¹⁾ 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, 2021, net debt amounted to SEK 55,433m (42,688; 50,940).

Net debt distributed by currency

Currency	Net debt SEKm	Percentage of net debt		
		2021 %	2020 %	2019 %
EUR	19,076	35	43	42
SEK	12,162	22	18	19
USD	8,272	15	16	10
GBP	6,724	12	12	14
AUD	3,334	6	1	1
HKD	2,308	4	1	4
COP	1,768	3	0	0
CNY	1,718	3	8	5
Other	71	0	1	5
Total	55,433	100	100	100

» For further information relating to hedging of translation exposure, see Note E6 Derivatives and hedge accounting on page 104.

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 102.

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 4,784m (1,650; 971), gross. Taking net calculation agreements per counterparty into consideration, credit exposure of derivatives amounted to SEK 1,563m (887; 551). At year-end, the total credit exposure was SEK 6,338m (6,208; 3,750). This exposure includes credit risk of SEK 4,119m (5,048; 2,928) for financial investments.

Refer to the table below for the distribution of credit risk by category.

Financial credit exposure

SEKm	Category ¹⁾			Total
	A	B	C	
Financial assets measured at fair value through other comprehensive income	–	–	99	99
Financial assets measured at amortized cost	146	–	62	208
Cash and bank balances	2,719	640	545	3,904
Derivative assets, net	853	0	710	1,563
Current investments	142	73	–	215
Bank guarantees	349	–	–	349
Total	4,209	713	1,416	6,338

¹⁾ 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 increased by SEK 12,745m in 2021. At year-end, the average maturity of gross debt (excluding leases and pensions) was 4.1 years (3.1; 3.1). If short-term loans would be replaced with long-term unutilized credit facilities, the average maturity would amount to 4.7 years. Unutilized credit facilities amounted to SEK 20,459m at year-end. In addition, cash and cash equivalents totaled SEK 3,904m.

Liquidity reserve

SEKm	2021	2020	2019
Unutilized credit facilities	20,459	20,056	20,850
Cash and cash equivalents	3,904	4,982	2,928
Total	24,363	25,038	23,778

SEKm	2021	2020	2019
Net sales	121,867	121,752	128,975
Liquidity reserve ¹⁾	20%	21%	18%

¹⁾ Liquidity reserve as a percentage of net sales.

For further information, see Note E2 Financial assets, cash and cash equivalents on page 101, and Note E4 Financial liabilities on page 102.

Interest rate

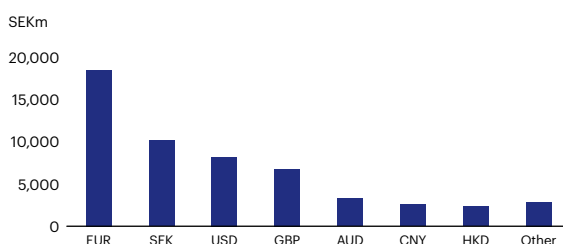
Risk

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 2021. Lower average interest rates had a positive impact. Essity's major funding currencies are EUR, SEK 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 19.0 months (21.2; 24.7) at year-end. The average interest rate for the total outstanding net debt including derivatives, amounted to 1.30% (1.61; 2.11) at year-end.

Gross debt distributed by currency



Climate-related risks and opportunities

Climate change affects Essity and the company continuously maps the risks and opportunities this entails by means of, for example, scenario analyses. The purpose of this is to identify, manage and minimize the risks and to take action. Strengths and opportunities identified are further developed within the scope of the Group's sustainability work.

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 35. Sustainability issues are discussed on an ongoing basis by Essity's Executive Management Team and Board of Directors and has also in 2021 comprised a focus area in the work of the Board of Directors.

A steering committee has been appointed to ensure that Essity meets the company's climate targets. The steering committee is led by members of Essity's Executive Management Team and its tasks include preparing plans to deliver on all Scope 1, 2 and 3 targets.

Targets and key performance indicators

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 ambitious targets and key performance indicators to be achieved in parallel with the continued growth of the company. 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

contributes to business opportunities and cost savings. Essity's target to reduce carbon emissions was approved by the Science Based Targets initiative for the first time in 2018. For Scope 1 and 2, Essity undertook to reduce greenhouse gas emissions by 25%, and for Scope 3 by 18% by 2030 compared with 2016. In 2021, Essity increased its ambitions for Scope 1 and 2, committing to reducing its Scope 1 and Scope 2 emissions by 35% no later than 2030¹⁾ and to develop plans to achieve net-zero emissions of greenhouse gases by 2050¹⁾.

Read more about the Essity's targets and outcomes on pages 20–21.

Climate-risk analysis

A climate-risk analysis based on the recommendations of the framework of TCFD is completed annually. In 2020, a more in-depth scenario analysis was conducted based on 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 this would have for Essity. The analysis was based on the impact of climate change and the impact of changes to legislation.

Reporting is conducted based on the recommendations of the framework of the Task Force on Climate-related Financial Disclosures (TCFD). See also page 137 for an index of where more TCFD-related information can be found in the Annual and Sustainability Report.

Process



Scenario 1: Global warming of 1.5°C

Description: Global warming is limited to no more than 1.5°C by 2100²⁾ 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.
- Deforestation leads to a shortage of fresh wood-based fiber, thereby resulting in a raw materials shortage.

¹⁾ In accordance with SBTi's definitions, where targets for 2030 are referred to as "near-term targets" and for 2050 "long-term targets".

²⁾ Based on the International Panel for Climate Change (IPCC) scenario (RCP scenario 2.6).

Scenario 1: Global warming of 1.5°C, cont.

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, which also attracts new employees.
- Investments in and development of new business models in addition to green solutions attract more customers and consumers.
- Leading hygiene and health solutions are prioritized.

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 production facilities, 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 impact and setting new standards for the entire industry.
- In 2021, Essity commenced production of pulp from alternative fiber at its facility in Mannheim, Germany. The production facility produces high-quality pulp from wheat straw, using 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 emissions-effective transport methods for long-distance transportation. The company 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 carbon emissions from transportation.
- The targets for carbon emission reductions were approved by the Science Based Targets initiative in 2018. To ensure that it meets the climate targets, Essity has appointed a steering committee led by members of Essity's Executive Management Team.
- New offerings, business models and partnerships are under development in Essity that contribute to a more sustainable society and reduce the environmental impact of the company, and of customers and consumers. For example, washable absorbent underwear has been launched that facilitates reuse, the proportion of renewable material has increased in the company's packaging, and more customers are using Tork PaperCircle®, which is the world's first recycling service for paper hand towels.
- Essity urges its suppliers to work in a manner that promotes increased sustainability and several of Essity's major raw material suppliers have their own ambitious sustainability targets that are often approved by Science Based Targets initiative.
- 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. Awareness of the importance of hygiene and health is increasing globally.
- Essity's target for sourcing of fresh fiber means that all wood-based fresh fiber is to be FSC™ or PEFC™ certified, meaning sourced from responsibly managed forests that promote the principles of biodiversity and forest conservation.

Scenario 2: Global warming of 4°C

Description: Global warming of 4°C in 2100¹⁾, due to the failure to effectively reduce emissions and other negative environmental impacts. Extreme weather become more frequent. 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 disruptions due to extreme weather, which may result in water shortages and excessively high water temperatures, for example.
- Rising insurance costs and costs for reconstruction following extreme weather.
- Increased investments 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, thereby resulting in a raw materials shortage.
- Lower living standards and changed consumption behavior.

Opportunities

- Competitive advantages from safeguarded production and sourcing in regions at risk.
- Leading hygiene and health solutions are prioritized.

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 engaged the services of 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.
- See also actions under Scenario 1.

¹⁾ Based on the International Panel for Climate Change (IPCC) scenario (RCP scenario 6–8.5).