

Remuneration report 2020

Essity Aktiebolag (publ)
to be presented at the 2021 AGM

INTRODUCTION

This report describes how the guidelines for remuneration of senior executives of Essity AB, as adopted by the 2020 AGM, were applied in 2020. The report also provides information about the remuneration of the President and the Executive Vice President and a summary of the company's variable remuneration programs and other benefits. The report has been prepared in accordance with the Swedish Companies Act and the Swedish Corporate Governance Code. More information about remuneration of senior executives is available in Note C (Employees) on pages 87–89 in the Annual and Sustainability Report for 2020. Information about the work of the Remuneration Committee in 2020 is presented in the Corporate Governance Report on pages 52–61 in the Annual and Sustainability Report for 2020.

The Board's remuneration is not covered in this report. Such remuneration is approved each year by the AGM and is reported in Note C3 on page 89 of the 2020 Annual Report.

1. Key events and key figures in 2020

The President summarizes the company's overall performance in his statement on pages 6–7 in the Annual and Sustainability Report for 2020.

2. The company's guidelines for remuneration of senior executives: purpose, scope and deviations

The remuneration guidelines, as unanimously adopted by the 2020 AGM, and the application of these are described on pages 87–88 of the Annual and Sustainability Report.

A prerequisite for the successful implementation of the company's business strategy and the protection of its long-term interests, including its sustainability, is that the company can recruit and retain qualified staff. To this end, the company must offer competitive and market-based remuneration and benefits.

According to the guidelines, total remuneration and benefits to senior executives, Total Reward, is to correspond to market practice and be competitive in the senior executive's field of profession. The remuneration is offered as fixed salary, variable remuneration, other benefits such as company car, pension and healthcare benefits.

The total remuneration is to be proportionate to the senior executive's position and authority and the responsibility these entail based on the financial scope and business impact, as well as market complexity. Total remuneration is decided on an individual basis at a level that, in combination with the various remuneration components, is considered to correspond to market practice and is competitive and takes into account performance. For the President and the Executive Vice President, a market comparison is therefore conducted with Swedish global industrial companies.

Table 1 below shows the total remuneration of senior executives in 2020 and the relationship between fixed and variable remuneration. Remuneration was not received from other Group companies.

3. Variable remuneration

Variable remuneration is divided into short and long-term portions that are related to financial or non-financial targets. The criteria are designed to contribute to the company's business strategy and long-term interests, including its sustainability. The sustainability targets are primarily focused on the Science Based Targets Scope 1 and 2, which aim to reduce emissions of carbon dioxide in energy utilization and purchased electricity.

3.1 Short-term incentive program

The program aims to support the achievement of the company's strategic business targets in the short and long term. The program's target structure consists of organizational targets and performance targets.

The organizational targets are set at a high level in the organization, business unit or Group level, as decided at Group level, and include a large number of employees, while the performance targets are directly linked to responsibility within an individual role.

The organizational targets consist of financial targets at Group level or business area targets and comprise operating cash flow, sales growth and operating margin.

Performance targets are financial targets or business strategy, non-financial targets. The performance targets are designed to be more closely linked to an individual role.

For the President and the Executive Vice President, organizational targets comprise the Group's adjusted operating margin, organic sales growth and operating cash flow. The performance targets for 2020 consisted of profit

Table 1. Total remuneration of the President and the Executive Vice President

SEK	Name, position	Fiscal year	Fixed remuneration		Variable remuneration ¹⁾			Pension costs	Total salary and remuneration	Proportion fixed and variable remuneration (%)
			Fixed salary	Other benefits and remuneration	Short-term remuneration	Long-term remuneration	Extraordinary benefits			
	Magnus Groth President and CEO	2020	15,000,000	112,291	5,670,000	0	0	6,269,391	27,051,682	79/21
	Fredrik Rystedt CFO and Executive Vice President	2020	7,503,000	50,707	2,836,134	0	0	2,379,895	12,769,736	78/22

¹⁾ Variable remuneration pertains to 2020 but is paid in 2021.

Table 2. Outcome of the short-term program 2020 for the President and the Executive Vice President

Name, position	Target	Target's relative value	Target outcome	Remuneration (SEK)
Magnus Groth President and CEO	<i>Organizational target</i>			
	EBITA margin (adjusted)	21%	14.5%	1,575,000
	Operating cash flow (adjusted) ¹⁾	28%	SEK 17.1bn	2,100,000
	Organic sales growth	21%	-1.9%	0
	<i>Performance target</i>			
	Profit for the period (adjusted)	21%	SEK 11.8bn	1,315,500
	Science Based Targets, Scope 1 and 2	9%	-11%	675,000
Fredrik Rystedt CFO and Executive Vice President	<i>Organizational target</i>			
	EBITA margin (adjusted)	21%	14.5%	787,815
	Operating cash flow (adjusted) ¹⁾	28%	SEK 17.1bn	1,050,420
	Organic sales growth	21%	-1.9%	0
	<i>Performance target</i>			
	Profit for the period (adjusted)	21%	SEK 11.8bn	658,013
	Science Based Targets, Scope 1 and 2	9%	-11%	337,635

¹⁾ Change in working capital is replaced with average calculated change in working capital during the year.

for the period (adjusted) and sustainability targets. The organizational targets account for 70% and the performance targets 30%. See table 2.

If the targets are met in full, short-term remuneration amounts to 50% of fixed cash salary for the President and the Executive Vice President. This remuneration is not pensionable income.

3.2 Long-term incentive program

The aim of the long-term program is to promote the long-term positive earnings trend for the company and positive value appreciation for the company's shareholders.

The program is a cash-based program and aims through share ownership to create commonality between participants and the company's shareholders and reward long-term value creation. The program is also an important remuneration component in attracting and retaining key employees. The program is approved by the Board each year and participants in one program are not automatically eligible to participate in future programs.

The measurement period is three years. An invitation to take part in the program is sent during the third year of the measurement period. The degree to which the targets were met and any outcomes are determined at the end of the measurement period. The cost of any outcome within the program is charged to the third year.

The target for the long-term incentive program is based on the company's performance, measured as Total Shareholder Return (TSR). The TSR value comprises dividends, share performance and other returns that are compared with the performance of the MSCI Household Products Index, Consumer Staples, which is a weighted index of the corresponding TSR values of competitors and consumer companies during a three-year measurement period.

The starting point is the average TSR value during the final quarter before the start of the measurement period compared with the average TSR value during the final quarter of the measurement period.

Remuneration is paid if Essity's TSR value reaches the performance interval between -5 percentage points of the average TSR value of the comparison group for the same period (minimum outcome) and +5 percentage points of the average TSR value of the comparison group (maximum outcome).

Resulting remuneration is not pensionable income.

The company pays any outcome as cash remuneration, and the maximum outcome may amount to 50% of the fixed cash salary for the senior executive. Within a specified period, the senior executive must acquire Essity shares for at least half of the remuneration received, after deduction of income tax. If trading restrictions are in place, due to insider information, the acquisition must take place as soon as possible thereafter.

The senior executive must then not divest the shares acquired within the framework of the program until the shares have been retained for at least three years from the date of purchase.

If a participant resigns and is subsequently removed from the program before the end of the vesting period, entitlement to the remuneration proceeds is lost.

The outcome of the program is paid as cash remuneration to the senior executive, which means the program has no dilution effect or similar impact for shareholders and, as stated above, there is a ceiling for the maximum outcome.

4. Pension benefits

Pension benefits for senior executives shall be contribution-defined in accordance with the remuneration guidelines and limited to at most 40% of fixed salary with the exception of pension agreements signed before 2020.

For the President and the Executive Vice President, pension benefits are defined contribution with a premium of 40% of fixed cash salary in addition to the premium expenses for basic pension benefits in the ITP plan with retirement pension benefits limited to a maximum salary income of 7.5 income base amounts. The retirement age is 65.

5. Other benefits

Other benefits refers to company cars, luncheon vouchers and medical insurance.

6. Deviations and audit

No deviations from the guidelines took place and no exemptions from implementing the guidelines were made. The auditor's report on the company's compliance with the guidelines is available on the company's website¹⁾. No remuneration was refunded.

7. Comparative information between remuneration and performance

Comparative information about changes in total remuneration of senior executives and average remuneration per full-time employee in the Parent Company and the company's performance results is provided under Table 4.

The former SCA Group was split in 2017 into the forest products company SCA and the hygiene products company Essity, which is why comparative information is not reported before 2018.

Board of Directors, February 18, 2021

¹⁾ www.essity.com/company/corporate-governance/general-meeting/general-meeting-2021/

Table 3. Outcome of long-term program 2020 for the President and the Executive Vice President

Name, position	Target	Target's relative value	Target outcome (%)	Remuneration (SEK)
Magnus Groth President and CEO	Performance of the company's Total Shareholder Return (TSR) compared with MSCI Household Products Index, Consumer Staples' TSR, during the three-year measurement period.	100%	0.00%	0
Fredrik Rystedt CFO and Executive Vice President	Performance of the company's Total Shareholder Return (TSR) compared with MSCI Household Products Index, Consumer Staples' TSR, during the three-year measurement period.	100%	0.00%	0

Table 4 – Change in Total remuneration¹⁾ and the company's performance in recent fiscal years

Name, position	Total remuneration ¹⁾ in 2020 (SEKm)	Year-on-year change – 2020/2019		Year-on-year change – 2019/2018	
		(SEKm)	(%)	(SEKm)	(%)
Magnus Groth President and CEO	27.1	-6.4	-19%	7.6	29%
Fredrik Rystedt CFO and Executive Vice President	12.8	-3.4	-21%	2.4	17%
Average remuneration per employee (converted to full-time equivalents) in Essity Aktiebolag (publ). Remuneration of senior executives is excluded.	1.6	-0.2	-9%	0.3	18%
Company's performance – Profit for the period (adjusted)	11,805	1,039	10%	1,210	13%

¹⁾ Total remuneration comprises fixed salary, short and long-term variable remuneration, pension costs and other benefits.