

Remuneration report 2022

Essity Aktiebolag (publ)
to be presented at the 2023 Annual General Meeting (AGM)

Introduction

This report describes how the guidelines for remuneration of senior executives of Essity Aktiebolag (publ), as adopted by the 2022 AGM, were applied in 2022. 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 Stock Market Self-Regulation Committee Remuneration Rules. More information about remuneration of senior executives is available in Note C (Employees) on pages 99–104 in the Annual and Sustainability Report for 2022. Information about the work of the Remuneration Committee in 2022 is presented in the Corporate Governance Report on pages 62–71 in the Annual and Sustainability Report for 2022.

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 101 of the 2022 Annual Report.

1. Key events and key figures in 2022

The President summarizes the company's overall performance in his statement on pages 6–7 in the Annual and Sustainability Report for 2022.

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

The remuneration guidelines, as unanimously adopted by the 2022 AGM, and the application of these are described in Note C2 on pages 99–101 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 this entails 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 taking 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 2022 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 long-term incentive program was adopted by the AGM in 2022. 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.

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

Name, position	Fiscal year	Fixed remuneration		Variable remuneration ¹⁾		Extraordinary benefits	Pension costs	Total salary and remuneration	Proportion fixed and variable remuneration (%)
		Fixed salary	Other benefits and remuneration	Short-term remuneration ²⁾	Long-term remuneration ³⁾				
Magnus Groth President and CEO	2022	16,500,000	136,022	14,692,425	0	0	6,876,833	38,205,280	53/47
Fredrik Rystedt Executive Vice President and CFO	2022	8,271,900	60,106	7,365,713	0	0	2,589,336	18,287,055	53/47

1) Variable remuneration pertains to 2022 but is paid in 2023.

2) Short-term remuneration comprises remuneration paid out under STI and BIP.

3) Payment according to the long-term incentive program will be determined in 2025.

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, and are decided at Group level and apply for 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 strategic 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 2022 consisted of profit 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.

Table 2. Outcome of the short-term program 2022 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)	25%	8.36%	1,272,400
	Operating cash flow (adjusted ¹⁾)	17.5%	SEK 10.16bn	1,156,540
	Organic sales growth	27.5%	15.7%	2,268,800
	<i>Performance target</i>			
	Profit for the period (adjusted)	21%	SEK 8.3bn	1,588,760
	Science Based Targets, Scope 1 and 2	9%	-17.6%	742,500
Fredrik Rystedt Executive Vice President and CFO	<i>Organizational target</i>			
	EBITA margin (adjusted)	25%	8.36%	637,895
	Operating cash flow (adjusted ¹⁾)	17.5%	SEK 10.16bn	579,798
	Organic sales growth	27.5%	15.7%	1,137,400
	<i>Performance target</i>			
	Profit for the period (adjusted)	21%	SEK 8.3bn	796,500
	Science Based Targets, Scope 1 and 2	9%	-17.6%	372,236

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

3.2 Short-term Bridge Incentive Program (BIP)

Essity has adopted a long-term incentive program to enable the company to recruit and retain key individuals and to promote the common interest of participants and shareholders in generating long-term returns, refer to section 3.3. BIP is a short-term incentive program that aims to ensure continuity of long-term incentive and that the common interest of the participants and shareholders is retained during the period the new LTI program is introduced. Consequently, compensation under the BIP-program may only be paid in 2022 and 2023, as compensation under the LTI-program will then not be payable. This is achieved through a requirement to invest and retain Essity shares. BIP consists of three goals: sales growth, profit before tax and a short-term goal for reduction in carbon emissions. The goals relating to sales growth and profit before tax each account for 40% and the goal relating to a reduction in carbon emissions accounts for 20%, see table 3.

At full outcome, short-term remuneration amounts to 50% of fixed salary for the President and the Executive Vice President. The variable remuneration from the BIP program is paid in cash. This remuneration is not pensionable income. Senior executives who participate in the program must purchase Essity shares for the amount disbursed after tax and the shares must not be sold until a holding period of three years has passed.

3.3 Long-term incentive program (LTI)

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 and adopted by the general meeting for one year at a time 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 first 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 long-term incentive program has two goals. The first is based on the performance of the company's Class B shares, measured as Total Shareholder Return (TSR). TSR comprises dividends, share price performance and other returns that are compared with the performance of weighted indexes that contain shares for a selection of competing companies in Essity's business areas of Consumer Goods, Health & Medical and Professional Hygiene during a three-year measurement period. Average TSR during the final quarter before the start of the measurement period is compared with average TSR during the final quarter of the measurement period.

Remuneration for this goal is disbursed if Essity's TSR is not less than the weighted TSR of the comparison group for the same period and maximum outcome is achieved if Essity's TSR exceeds the weighted TSR for the comparison group by at least five percentage points during the measurement period. The second goal is a relative goal for reduction in greenhouse gas emissions ("Sustainability target"). A prerequisite for disbursement is that the company reduces its greenhouse gas emissions during the measurement period by at least 7.5% compared with the base year of 2016. Full disbursement is made if the Sustainability target is achieved.

The TSR goal is weighted at 80% and the Sustainability target at 20% when deciding on the outcome of the program. The company pays any outcome as cash remuneration, and the maximum outcome may amount to 80% of the fixed cash salary for the senior executive. The maximum compensation for the President and the Executive Vice President is 50% of the fixed salary. Resulting remuneration is not pensionable income. Within a specified period, the senior executive must acquire Essity shares for the full amount of 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.

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

Name, position	Total remuneration ¹⁾ in 2022 (SEKm)	Year-on-year change – 2022/2021		Year-on-year change – 2021/2020		Year-on-year change – 2020/2019		Year-on-year change – 2019/2018	
		SEKm	(%)	SEKm	(%)	SEKm	(%)	SEKm	(%)
Magnus Groth President and CEO	38.2	14.7	62%	-3.6	-13%	-6.4	-19%	7.6	29%
Fredrik Rystedt Executive Vice President and CFO	18.3	7.4	67%	-1.8	-14%	-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	14%	-0.2	-12%	-0.2	-9%	0.3	18%
Company's performance – Profit for the period (adjusted)	8,327	-1,036	-11%	-2,442	-21%	1,039	10%	1,210	13%

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

If a participant resigns before the end of the measurement period, entitlement to remuneration under the program is relinquished. 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. The next occasion for outcome assessment will be in 2025 for the 2022–2024 program.

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.

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 remuneration 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 16, 2023

1) www.essity.com

Table 3. Outcome of the Bridge Incentive Program 2022 for the President and the Executive Vice President

Name, position	Target	Target's relative value	Target outcome (%)	Remuneration (SEK)
Magnus Groth President and CEO	Profit before tax (adjusted)	40%	SEK 10.57bn	2,713,425
	Organic sales growth	40%	15.7%	3,300,000
	Science Based Targets, Scope 1 and 2	20%	-3.4%	1,650,000
Fredrik Rystedt Executive Vice President and CFO	Profit before tax (adjusted)	40%	SEK 10.57bn	1,360,314
	Organic sales growth	40%	15.7%	1,654,380
	Science Based Targets, Scope 1 and 2	20%	-3.4%	827,190