



Annual Report 2018

Stichting Pensioenfonds Essity

2018 *at a glance:*

- Policy funding ratio **104.7%** at year-end 2018 (2017: 102.9%), above the minimum regulatory funds of 103.9%: the fund no longer has a funding shortfall
- Current funding ratio **100.4%** at year-end 2018 (2017: 105.3%), a decrease of 4.9% points
- Return on assets (for fund's risk) of **-1.4%**, average five-year annual return of 6.7%
- Invested assets (for fund's risk) increased by 10.9 million euros to **435.4 million euros**
- Obligations increased by **8.0%**
- Indexation on 1 January 2018 of **0%**

Key figures

(amounts in 1,000 euros)

	Stichting Pensioenfonds Essity				
	2018	2017	2016	2015	2014
Members					
active members	1.394	1.418	1.388	1.401	1.382
deferred beneficiaries	1.352	1.318	1.316	1.281	1.259
pension beneficiaries	718	674	627	598	564
total members	3.464	3.410	3.331	3.280	3.205
Invested assets					
for pension fund's risk 1)	435.406	424.482	397.657	362.860	353.539
for members' risk	33.084	33.645	31.168	27.380	24.778
total for funding ratio calculation from 2015	468.490	458.127	428.825	388.224	
Total technical provisions					
for pension fund's risk	433.683	401.453	405.134	360.414	330.222
movement in provision	8.0%	-0.9%	12.4%	9.1%	27.5%
for members' risk	33.084	33.645	31.168	27.380	24.778
total for funding ratio calculation from 2015	466.767	435.098	436.302	387.794	
Funding ratio:					
UFR derived notional interest rate	1.43%	1.56%	1.39%	1.76%	1.99%
policy funding ratio 2)	104.7%	102.9%	95.0%	102.0%	110.80%
current funding ratio 3)	100.4%	105.3%	98.3%	100.1%	107.1%
required funding ratio in prevailing FT K	117.6%	117.5%	117.3%	117.4%	116.0%
minimum required funding ratio	103.9%	103.9%	103.9%	103.9%	
real funding ratio	85.4%	83.8%	78.1%	83.5%	
Performance figures: 4)					
fixed-income securities	0.2%	-0.1%	9.4%	-0.6%	21.0%
shares	-2.1%	15.3%	8.5%	6.0%	11.8%
real estate	-0.1%	12.3%	5.9%	4.5%	3.2%
total investment portfolio	-1.4%	5.4%	9.5%	1.1%	20.3%
benchmark of total portfolio	-0.7%	5.3%	9.5%	0.8%	20.6%
average 5-year annual return	6.7%	7.1%	8.5%	8.3%	
Indexing on 1 January of financial year:					
active members	0%	0%	0%	0%	2.00%
pension beneficiaries					
deferred beneficiaries and pre-pensioners	0%	0%	0%	0%	0.90%
General reserve	1.723	23.029	-7.477	430	23.317
Appropriated reserve, contribution deposit	4.467	4.238	3.887	2.016	n/a
Other Provision for VPL 5)	0	9.251	8.173	6.812	6.648
Net result	-21.077	30.857	-6.036	-20.871	-5.740

1) 'Invested assets for pension fund's risk' is defined as the balance sheet total of the assets less the short term debts and deferred liabilities, less the pension obligations for members' risk and less the contribution deposit (appropriated reserve)

2) As from 2015: policy funding ratio on the basis of the 12-month average from January to December

3) Current funding ratio on the basis of the one-month UFR, not the 12-month average UFR; comparable figures for 2014 have not been at

4) The performance figures relate solely to the invested assets for pension fund's risk

5) The VPL scheme was terminated at year-end 2018

Stichting Pensioenfonds Essity

Stichting Pensioenfonds Essity (until 1 June 2018, Stichting Pensioenfonds SCA)
Arnhemse Bovenweg 120, 3708 AH Zeist, The Netherlands; Postbus 670, 3700 AR Zeist,
The Netherlands

Telephone: +31 (0)30 -698 4860

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Report for the financial year
1-1-2018 through 31-12-2018

Content

BOARD REPORT

	Page
1. Report from the Board and Management	4
2. Board and organisation	5
3. Notes to the Board and organisation	7
4. Summary of policy and operations	9
5. Pension fund's governance	10
5.1 Summary	
5.2 Notes	
5.3 Report from the Board committees	
5.4 Compliance with the Code of the Dutch Pension Funds	
5.5 Expectations	
6. Costs	11
7. Asset Management	13
7.1 Summary	13
7.2 Policy and operations	13
7.3 ESG	13
7.4 Breakdown of investments	15
7.5 Other developments	15
7.6 Costs of asset management	15
7.7 Expectations	15
8. Administration	16
8.1 Summary	
8.2 Policy	
8.3 Expectations	
9. Communication	17
9.1 Summary	
9.2 Policy and operations	
9.3 Expectations	
10. Pension scheme, contribution, franchise and indexation policy	18
10.1 Pension scheme	
10.2 Contribution policy	
10.3 Cost-effective, cushioned and received contributions	
10.4 Contribution deposit	
10.5 Franchise	
10.6 Conditional indexation policy	
11. Risk Management	20
12. Fund's financial position	24
12.1 Summary	24
12.2 Recovery plan	24
12.3 Policy	24
12.4 Notes to the result	26
12.5 Notes to financial position	26
12.6 Expectations	26
13. Post balance sheet events	26
14. Statements	27
14.1 Accountability Body	27
14.2 Actuary and auditor	27
14.3 Review Committee	28
15. Appropriation of result	29

ANNUAL ACCOUNTS

	Page
16. Annual accounts	30
16.1 Balance sheet at 31 December	31
16.2 Statement of income and expenditure	32
16.3 Cash flow statement	32
16.4 Accounting principles	33
16.5 Notes	35
16.6 Risk section	44
17. Other information	47
17.1 Appropriation of result	
18. Statements	48
18.1 Actuary's statement	48
18.2 Auditor's report	49
19. Annexes	50
19.1 Calculation of invested assets	50
19.2 Insured persons/members database	50
19.3 Glossary	51

Credits

Published by: Stichting Pensioenfonds Essity

Notes to photo on cover

In 2018, Stichting Pensioenfonds Essity invested an extra 13 million euros in Dutch retail stores via its Dutch Altera Vastgoed real-estate management company. The pension fund's investment of approximately 26 million euros represents a 4.2% stake in Altera's retail sector fund.

The photo is of a store in the Rokade shopping centre in Utrecht that Altera acquired in 2017 and of which, consequently, the pension fund is – via Altera – a 4.2% owner. This relates to 3,750 m² with Albert Heijn, Kruidvat and Etos stores as the major lessees. The pension fund reached its decision to make extra investments in the Dutch retail store sector, apparently contrary to the trend, for several reasons.

First of all, the decision to invest in Dutch real estate. The pension fund is convinced that good governance and legislation/regulations are of crucial importance to the protection of shareholder rights and further an in-depth insight into and knowledge of the market. This avoids surprises. Secondly, the pension fund wishes to make a contribution to the direct living environment of its members whenever feasible from a returns and quality perspective. The pension fund's decision achieves both objectives.

The pension fund is aware of the emerging competition from the Internet that is impacting the Dutch retail sector. However, Altera has adopted an investment strategy for its retail sector in which it invests primarily in shopping centres that are focused on convenience shopping, i.e. shopping centres with supermarkets and comparable chains where consumers do their day-to-day shopping. These shopping centres have extremely high occupancy levels and house primarily leading store chains. The figures confirm these expectations. The pension fund believes in this strategy.

The pension fund decided to increase its stake via Altera because this real-estate fund works exclusively with institutional investors such as pension funds, does not invest with borrowed funds (no leverage) and maintains appropriate cost control. Altera has a long track record in Dutch shopping centres and has built up a good position in high-grade convenience shopping centres.

In 2018, the return on investment was 6.2%, equivalent to an out-performance of 320 base points relative to the target return for the return portfolio.

Information:

M. van Gool, Director
Mathijs.van.gool@essity.com
www.mijnnessitypensioen.nl

BOARD REPORT

1. Report from the Board and Management

Stichting Pensioenfonds Essity had a reasonably good 2018. The increase in the policy funding ratio to 104.7% at year-end 2018 was an extremely positive development that brought the ratio above the minimum regulatory own funds for the first year since 2015. Consequently, the fund no longer has a funding shortfall. However, the annual rate of return was negative, at -1.4%, largely due to the poor December.

The increase in this 12-month average policy funding ratio was due to the good first three months of 2018, with current funding ratios (at the end of the month) of around 108% (see also the chart on page 26). These were due to the good response of the investment portfolio to the improving financial markets and the slight increase in the interest rate. The portfolio is positioned to gain optimum benefit from this situation. The good results at the beginning of 2018 compensated for the poor last quarter. The return in the fourth quarter was negative, at -2.5%, which ultimately resulted in a negative return of -1.4% over the year.

The limited loss of return over 2018 was in part due to the Board's active decision to spread the return portfolio over various investment categories. Pursuant to this decision, the share position that was equivalent to approximately 40% of the total portfolio in the spring of 2018, was run down to about 30% and extra investments were made in Dutch mortgages and retail stores, and in international infrastructure. This shift ultimately limited the decline in the return on investments in December 2018 *and* over the year.

Consequently, 2018 was a good year from a technical perspective. As the policy funding ratio was above the minimum regulatory funds the fund does not need to implement a reduction and, in our case with the employer guarantee to make additional payments, the employer will not need to make additional payments in the coming 5 years (other than in the event of extremely negative developments in the funding ratio). However, on the downside 2018 was closed with a negative return and the funding ratio is still too low for indexation in 2019.

A great deal of progress was made in the implementation of Environment, Social and Governance (ESG) standards in 2018. The fund was once again able to convince a number of asset managers to screen their portfolio on ESG aspects – a success of which we, as a small fund, are proud. The fund also decided to sign a Dutch ESG covenant with ESG guidelines. Virtually the entire portfolio is now ESG-proof.

It is pleasing to note that the members have once again made full use of the pension consultation hours. A great deal of work has also been carried out on the implementation of the Premium Schemes (Improvements) Act in cooperation with AZL, the renewal of reinsurance contracts and the updating of the pension regulations.

Essity's social partners have, in conclusion, reached agreement on the settlement of the *VUT, prepensioen en levensloopregeling* (VPL, early retirement, pre-pension and career framework) transitional scheme at year-end 2018. This settlement results in a major technical operation for the fund, which will be implemented in 2019. This will ultimately reduce the administrative burden and the costs.

The Board is concerned about the accumulation of Dutch and European legislation that is increasing the costs of the pension operations. These costs are detrimental to the pension benefits. One example of this accumulation is the development of additional European legislation on pension fund governance, what is referred to as 'IORP II' legislation. This relates to legislation for capital pension systems that are in fact largely restricted to Switzerland, the Netherlands and the UK. No legislation has been drawn up for Member States such as France, Italy, and Spain in which budget deficits will increase even further due to rising ages in combination

with the ageing population and will drive debt positions far above the EU ceilings.

The IORP II legislation will result in an accumulation in our fund's Governance that will increase costs without expectations of any significant positive effects. The fund will endeavour to implement the legislation in a proportional manner that minimises the negative cost effects on the members.

There are numerous other examples of unfavourable cost issues. The Netherlands is the sole Member State that, in spite of fierce protests from the pension sector, passes on VAT on to pension funds. A second example is the States General's decision that the entire costs of the supervisory authorities must be passed on to the sector and not charged in part to public funds (because they are in the public interest). This has removed all restraints on cost increases – and the charges for supervision by no less than three supervisory authorities (DNB, AFM) only continue to increase. This is reflected in the fund's figures: the supervisory costs, control costs and taxes have increased by 25%, in contrast to the pension administration costs that have increased by just 2%. The supervisory costs, control costs, and taxes have now risen to the same level as the pension administration costs. Our fund's endeavours to reduce the asset management and administration costs have been nullified by the increases in costs arising from legislation (see also **Section 6, Costs**).

The fund's assets will creep towards the half-billion-euro mark in 2019. In 2008, assets amounted to just under 190 million euros. In the years since 2009, the fund generated an average annual return of 8.2% and an 1.5% excess return on the obligations, in accordance with the fund's objectives. The fund's solvency is not, self-evidently, determined by the gross assets, but rather by the assets against liabilities. The fund's solvency, notwithstanding the excess return that has been generated, has remained of the same order of magnitude during the past ten years. This is in part due to age increases and the more stringent regulatory buffer requirements imposed on the fund.

The membership of the Board, Board committees, Investment Committee and Accountability Body has remained stable. This provides assurance for expertise and experience in the future. Numerous officers were reappointed in 2018. Mr. Loek Ligthart, Mr. Richard van Sintemaartensdijk, Mr. Eddy Luiken and, in 2019, Ms. Carolien Quint were reappointed as members of the Board for a further 4-year term. Members of the Accountability Body were also reappointed and in 2019 a new member was appointed to the Accountability Body, Mr. Ruben Vlek. A new external member was appointed to the Investment Committee.

The various supervisory bodies and the Accountability Body, external Review Committee and social partners assessed the fund's operations as good. The fund is conducting a constructive dialogue on the continuation of the cooperation for a new five-year *pensioenarbeidsvoorwaarden CAO* (pension fund collective labour agreement governing employment conditions). The preparations for the meetings began this spring.

The Board and Management look forward to continuing to provide the fund's pension administration services to its members and stakeholders with unabated effort and in accordance with best practice.

*Loek Ligthart, Chair,
Carolien Quint, Secretary,
Kimmo Boijenga, Member of the Board,
Eddy Luiken, Member of the Board,
Richard van Sintemaartensdijk, Member of the Board,
Mathijs van Gool, Director*

2. Board and

Board of the Stichting Pensioenfonds Essity

Mr E. Ligthart ('74)	Chair
Ms C. Quint ('81)	Secretary
Mr K. Boijenga ('70)	Member of the Board acting Risk officer
Mr E. Luiken ('46)	Member of the Board
Mr R. van Sintemaartensdijk ('70)	Member of the Board, acting Audit Officer

Management

Mr M. van Gool ('58)	Director
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Investment Committee

Mr M. van Gool	Chair
Mr R. van Sintemaartensdijk	Member
Ms C. Quint	Prospective Member
Mr T. Groeneveld	External Member
Mr E. Hulshof	External Member
Mr A. van Nunen	External Member

Accountability Body

Mr P. Kuit ('72)	Chair
Mr W. Janssen ('64)	Secretary
Mr H. van Dun ('44)	Member
Ms M. Ennema ('83)	Member
Mr R. Vlek ('77)	Member

Compliance Officer

meester P. Akkermans

Ancillary positions

Mr E. Ligthart	Essity Netherlands HR Director
Ms C. Quint	Essity Holding Tax Manager
Mr K. Boijenga	Essity Hoogezand Logistics and Demand Coordinator
Mr E. Luiken	Ouderenraad Midden Groningen
Mr R. van Sintemaartensdijk	Essity GBS Accounts Receivable Manager Europe Central & South, Director Essity Holding Netherlands BV
Mr M. van Gool	Blue Water Consultancy
Mr T. Groeneveld	Member of IC Stichting Else
Mr E. Hulshof	Board Member of BfpBouw, Chair of IC BfpBouw
Mr A. van Nunen	Member of IC SP Dela, IC PF Houtverwerkende Industrie en Jachtbouw and IC SP Friesland/ Campina; Member of Fin. Committee ZLTO, Member of Advisory Committee FMO - IM and Van Nunen & Partners Investments
Mr P. Kuit	Essity HR Director Consumer Goods
Mr W. Janssen	Essity Quality Specialist GNP QRESH
Mr H. van Dun	-
Ms M. Ennema	Essity Customer Marketing Manager
Mr R. Vlek	Essity C&B Manager Nederland

Affiliated companies with administration agreement:

1. Essity Holding Netherlands BV, with:
 - Essity Netherlands BV
 - Essity Operations Hoogezand BV
 - Essity Operations Gennep BV
 - Essity Operations Suameer BV
 - Essity Operations Cuijk BV
 - Essity Operations Assen BV
2. Unicharm Mölnlycke Baby BV
3. Unicharm Mölnlycke Incontinence BV
4. SCA Logistics BV (including SCA Graphic Paper)
5. Stichting Pensioenfonds Essity
6. BSN IPM CV

External services

Pension & Fin. admin.	AZL NV
Asset management & investment admin.	Mn-Services Vermogensbeh. BV
Defined contribution scheme	ABN Amro Bank NV Afdeling Pension Services
Reinsurance	Elips Life
Auditor	Deloitte Accountants BV
Executive Actuary	AZL NV
Certifying Actuary	Triple A - Risk Fin. Certification BV
Actuarial key position	Triple A Risk Fin
Advising Actuary	AZL en Aon Hewitt Associates BV
Legal advice	Aon Hewitt
Review Committee	VCHolland

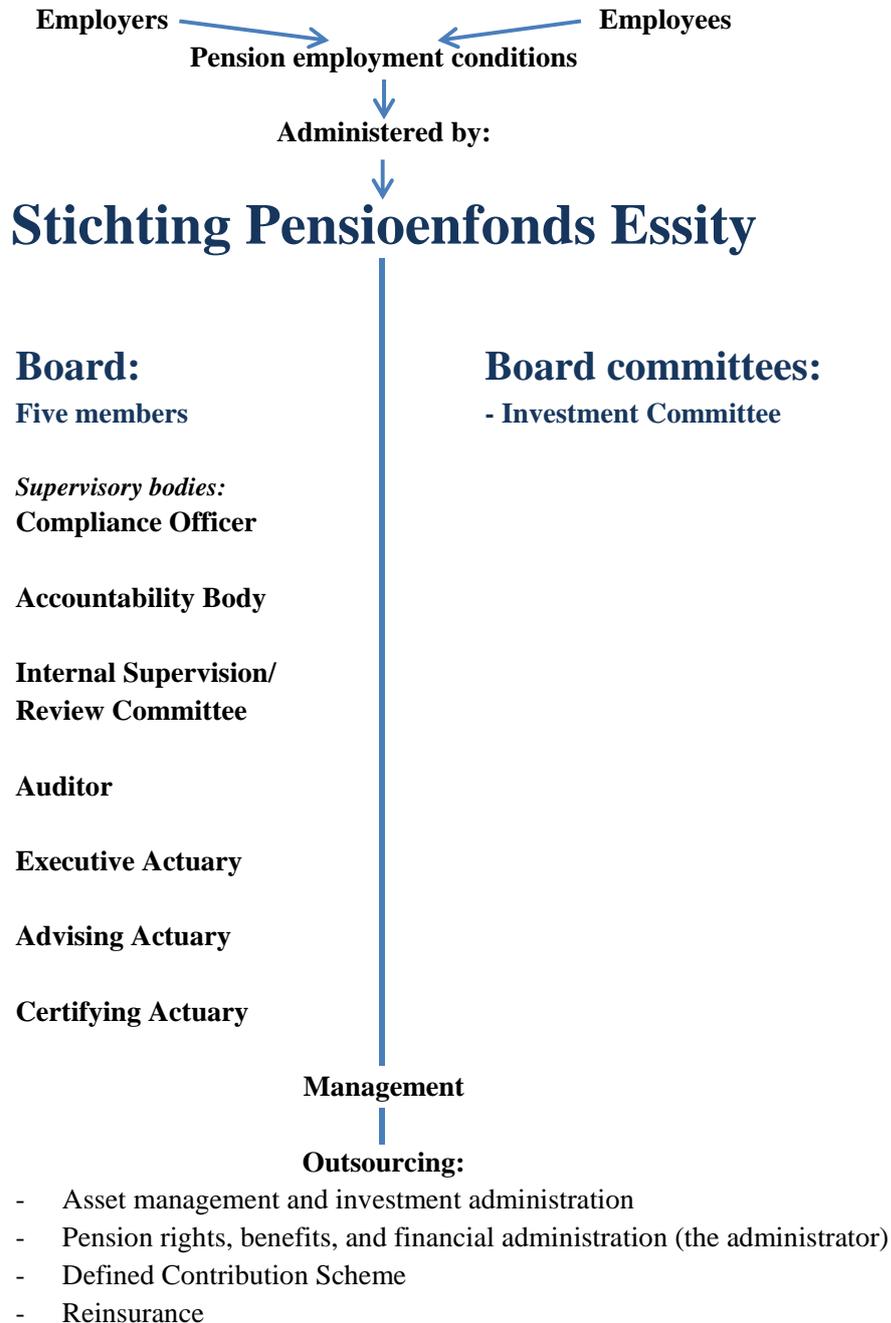
Postal and visiting addresses

Board:	Arnhemse Bovenweg 120 3708 AH Zeist The Netherlands Telephone: +31 (0)30 6984680
Administration:	AZL N.V. Akerstraat 92 6411 HD Heerlen The Netherlands Telephone: +31 (0)88-1163035
Website:	www.mijnessitypensioen.nl
Email address:	mijnessitypensioen@azl.eu

www.mijnessity

Organisation

Organisational chart, Stichting Pensioenfonds Essity



pensioen.nl

3. Notes to the Board and organisation

Introduction

Stichting Pensioenfonds Essity (until 1 June 2018, Stichting Pensioenfonds SCA) is a company pension fund in accordance with the Pensions Act and was formed on 1 January 2014. Stichting Pensioenfonds Essity is a foundation organised under Dutch law. The assets of the foundation are held by the foundation. The Board is entrusted with the management of the foundation and bears the overall responsibility. Stichting Pensioenfonds Essity has its registered office in Zeist, the Netherlands.

Mission, vision and strategy

The mission, vision and strategy are laid down in the *Missie en strategie SPE* (SPE Mission and Strategy) document.

Mission and Vision: The object of Stichting Pensioenfonds Essity is to administer the pension agreements of the affiliated companies and, within the context thereof, to pay or arrange for the payment of pension or other benefits to the members, deferred beneficiaries and pension beneficiaries in accordance with the provisions of the articles of association of the pension fund, pension regulations, and administration agreements.

Strategy: The Board endeavours to implement its policy and perform its duties in accordance with best practices and, in particular, to achieve an optimum quality/cost ratio.

Responsibilities and powers

The Board bears the overall responsibility for the policy and the pension fund's implementation of the agreed pension scheme and for the management of the foundation's assets.

The pension provisions are financed by Essity and its affiliated companies that participate in the scheme. The latest administration agreements between the employers and the pension fund were concluded in 2015, and entered into effect on 1 January 2015. BSN IPM CV and Essity Operations Assen BV joined on 1 January 2019. The fund has prepared an Actuarial and Technical Business Report (ABTR) which gives the reasons for the adoption of the policy pursued to achieve the object of the fund.

Organisation of the fund

Board and Management

The Board of the Stichting Pensioenfonds Essity has five members. Two members are nominated by the works councils of the affiliated companies and one member is elected from and nominated by the pension beneficiaries. The employer nominates two members of the Board for appointment.

The Board appoints its members in accordance with the articles of association and the appointment regulations adopted in 2016. In 2014, the Board decided to remunerate members of the Board representing the pensioners for their Board activities: other members of the Board do not receive remuneration. The members of the Board on 4 June 2019, the date on which this annual report was signed, are listed in **Section 2**.

Key positions

The fund, pursuant to IORP II legislation, appointed officers to the Audit, Risk and Actuarial key positions in January 2019. The fund has appointed acting officers from the members of the Board for the Audit and Risk key position, and from Triple A (Mr J. Tol) for the actuarial key position. The fund aspires to draw up the associated duties and responsibilities in more detail in 2019, and to integrate these in existing fund documents.

Management

The fund appointed a Director on 1 November 2007. The Director, who is entrusted with the performance of the day-to-day duties, is employed by Stichting Pensioenfonds Essity and receives remuneration from the fund. The duties, powers and responsibilities of the Stichting Pensioenfonds Essity Management/Director are laid down in regulations most recently amended in 2011.

Meetings and consultations of the Board

The Board holds five to six meetings a year. These are supplemented with two informal Board days and a course day. The Board can invite the Accountability Body to these meetings. The Board can convene an extra meeting at any required time. Management and Board are involved in the development of the fund at a day-to-day level. The Board held six regular meetings in 2018.

Reliability and expertise

The Board ensures that the expertise and reliability of persons who determine or jointly determine the fund's policy are beyond doubt. A code of conduct has also been drawn up for the Board, members of the commissions and other associated persons. The requisite conditions are laid down in the *Reglement Bestuursbenoemings- en Deskundigheidsplan* (board appointment and expertise plan regulations) document that is continually evaluated and amended as necessary.

Principles of good pension fund governance

The Board complies with the Pension Fund Governance (Further Measures) Act and Code of the Dutch Pension Funds of the Federation of the Dutch Pension Funds (2018 version). The Governance policy is explained in **Section 5**.

Board committees

The pension fund has one Board committee, the Investment Committee (IC). The members of the IC, which gives advice on the investments, are members from the Board and external experts. The IC fulfils a central role in the day-to-day asset management. The IC acts as the contact point for the fiduciary asset manager and fulfils a comprehensive information and advisory role for the Board.

Compliance and Compliance Officer

The fund has implemented a code of conduct, whistleblowers' regulations, incident regulations, and a complaints and dispute settlement procedure. The fund does not have any 'insiders', but does have 'associated persons', who are required to sign the code of conduct. These associated persons are the members of the Board, Management and Accountability Body, the external members of the Investment Committee and the members of the Review Committee. The Board tests that service providers have implemented and comply with a comparable code of conduct. The Board has appointed an external Compliance Officer. The Compliance Officer monitors the fund's compliance with the prevailing legislation and regulations governing the fund and with the code of conduct governing members of the Board and associated persons. The code of conduct was supplemented in 2017. The Compliance Officer prepares an annual report. The Compliance Officer issued the following declaration for 2018 (translated from the original Dutch):

'The pension fund is required to provide for controlled and ethical operations and within this context has appointed me Compliance

Officer. This annual report lays down my findings and recommendations relating to 2018. I have tested whether the members of the Board and the policymakers of the pension fund and its administrative organisation have complied with the code of conduct and the integrity regulations (including the whistleblowers' regulations, incident regulations and undesirable behaviour regulations) and have avoided conflicts of interests. I received the information needed to do so and have arrived at the following findings:

1. A list of the ancillary positions of the associated persons has been submitted. These do not give cause to conflicts of interests
2. No incidents or cases of abuse or undesirable behaviour involving the associated persons have been reported to or are known to the Board and/or me.
3. No complaints have been lodged with or are known to the Board and/or me
4. It has been established that the outsourcing partners have implemented a code of conduct that is at least equivalent to the pension fund's code of conduct.

I have requested that specific attention be given to potential conflicts between the Board and the Swedish parent company with respect to the ownership of the investments and influence on the investment policy. My most important recommendations are:

1. Give consideration to a SIRA that monitors integrity risks specific to the fund, such as the relationship between the sponsor and pension fund
2. Give consideration to an amendment of the privacy statement on the website relating to the provision of data to the employer that is required for IFRS calculations
3. Have the associated persons submit a statement of their ancillary positions to the Compliance Officer and give consideration to including these in the Annual Report rather than solely posting them on the website.

meester P.J.M. Akkermans

Signed: 2 April 2019'

Accountability Body

The Accountability Body is authorised to give an annual opinion on the actions of, policy pursued by and the policy decisions of the Board.

The members of the Accountability Body are listed in **Section**

2. The Member of the Accountability Body representing the pensioners has received remuneration since 2014. Other members do not receive remuneration. The *Reglement Verantwoordingsorgaan* (accountability body regulations) lay down provisions for issues including its members, the appointment of members, their tasks and powers, and the procedures. These were last amended in 2019.

Internal Supervision/Review Committee

The Board is responsible for the implementation of internal supervision of the processes and operations. The fund has arranged for its internal supervision to be carried out by an external Review Committee that conducts annual assessments of its policy and operations. The Review Committee's report includes a summary that is published in the fund's annual report.

Auditor

The Board has appointed an auditor. The auditor conducts annual audits of the annual accounts and the financial reports for DNB and reports on its activities in the form of an auditors' opinion and an auditor's report. The year-end reports for 2018 were audited by Deloitte Accountants BV.

Executive Actuary

The Executive Actuary determines the provision for pension obligations on a monthly, quarterly, and annual basis. The

Executive Actuary also carries out an annual technical insurance analysis and submits an actuarial report with the findings to the Board. The role of Executive Actuary is fulfilled by AZL NV.

Advising Actuary

The pension fund's Board can consult the Advisory Actuary on actuarial issues. The fund can call on two firms, AZL NV and Aon Hewitt Associates BV.

Certifying Actuary

The fund appoints a Certifying Actuary who conducts an audit to determine whether the provision for pension obligations has been calculated on the basis of sufficiently prudent principles and is correct. The Certifying Actuary also conducts an audit to determine whether the available funds are sufficient to meet the pension obligations and whether the fund invests in accordance with the prudent person principle. The role of Certifying Actuary is fulfilled by Triple A- Risk Finance Certification BV.

Outsourcing

The pension fund outsources activities on a structural basis. The pension fund's outsourcing complies in full with the supervisory authorities' outsourcing regulations. As the occasion arises, further agreements are reached with the administrative organisation on the procedures, processes, provision of information and services to be provided in Service Level Agreements (SLAs). The Board outsources the following activities:

1. Asset management and investment administration

Average salary scheme, for the pension fund's risk: As from 1 October 2008, the pension fund's asset management is performed, in accordance with the fiduciary asset management concept, by the Dutch Mn-Services Vermogensbeheer B.V. company, The Hague (MN). MN is responsible for the coordination of the asset management, provision of advice, risk management, operations, investment accounts and preparation of reports for the Board. An investment policy has been drawn up which is derived from the risk profile as determined by the social partners (employers and employees), legislation and regulations and analysis on the basis of the appropriate investment policy (ALM study). The Board adopts the ultimate investment policy once a year in its 'Investment Plan'.

2. Pension rights, benefits and financial administration

The pension rights, benefits and financial administration are outsourced to AZL N.V., Heerlen (the Administrator). AZL also offers support to the Board.

3. Defined Contribution Scheme, for the members' risk

Pursuant to the pension regulations, the pension scheme is a Defined Contribution Scheme. This defined contribution scheme is administered by the Pension Services department of ABN-AMRO Bank N.V., Amsterdam.

Although the pension fund has a duty of care towards the members with respect to this scheme, the investment risks associated with this scheme are borne by the members rather than the pension fund.

4. Reinsurance

As from 1 January 2016, the death and incapacity risks are reinsured with Elips Life.

Complaints and dispute settlement procedure

See under Compliance.

Other advisory services

The fund makes regular use of the legal advisory services provided by Aon Hewitt Associates BV.

4. Summary of policy and operations

The pension fund concentrates its policy and operations on the following key activities:

- 1 Organisation of good governance;
- 2 Asset management and financial position;
- 3 Administration, pension scheme, contribution, franchise and indexation;
- 4 Communication;
- 5 Risk management.

In 2018, the fund placed the primary focus on the following:

- governance: reappointment of members of the Board and Accountability Body;
- asset management: further implementation of ESG, spread of investments, renegotiation of contracts and training;
- pension scheme and financial position: implementation of age 68 pension scheme and update of pension regulations, realisation of policy funding ratio above minimum regulatory own funds to avoid need for additional payments and agreement with the social partners on the settlement of the *VUT, prepensioen en levensloopregeling* (VPL, early retirement, pre-pension and career framework) (VPL) transitional scheme at year-end 2018;
- communication: continuation of the pension consultation hours and provision of information on the Premium Schemes (Improvements) Act;
- risk: extra analysis of the IT risk at AZL.

A detailed report on the policy pursued is enclosed in the following sections. These are summarised briefly below.

Governance

The fund's governance structure is continually evaluated and remained unchanged in 2018. The fund is managed by a parity five-member Board that is supported by Management. Four members of the Board and three members of the Accountability Body were reappointed for four-year terms in 2018 and 2019. The Board is of the opinion that its organisation and its members enable it to be and remain in control of the policy and operations.

The Board was in control in 2018, and conducted the asset management in accordance with the prudent person rule.

Cost:

The pension fund conducts stringent cost management (best quality (return) – lowest costs/risk ratio). Costs are divided into *operating costs* and *asset management costs*.

Operating costs: these increased in 2018 as compared to 2017, due to a slight increase in administration costs, higher non-recurring costs such as the implementation costs for the new age 68 scheme and higher supervision and control costs and taxes.

Asset management costs (exclusive of VAT and passing on of operating costs: in 2018, these remained unchanged relative to managed assets, which increased during the year.

Asset management and financial position

Asset management: the fund conducts its asset management in accordance with the prudent person rule as required by law. Stichting Pensioenfonds Essity's social partners (Essity and employees (trade unions)) have defined and specified the risk policy/ investment risk policy. This lays the foundations for investments within a stringent risk profile as compared to the obligations and the aspiration for indexation that pivots on spread investments with an optimum return against risks and costs. For this purpose, the fund has adopted the generic 'investment principles' and 'operating principles' guidelines including the integrated Environment, Social and Governance (ESG) standards. The Board and its Investment Committee have knowledge of and expertise in investment and can call on the expertise of various selected parties. A framework of contracts and agreements on mandates, monitoring, reporting and accountability for asset management also mitigates operating risks (in accordance with Integrated Risk Management analyses, see also **Section 11 Risk Control**).

In 2018, the focus was placed on the introduction of ESG investments in real estate shares in the USA and Netherlands. New rates for investments in shares in Europe and the USA have also been specified.

The Board organised extra training courses for investments in shares in Europe and the USA. In 2018, the pension fund achieved a total return (after costs) of -1.4% (2017: 5.4%). The average five-year annual return was 6.7%. Asset changes related to a further spread of the portfolio: fewer shares and extra investments in infrastructure and Dutch retail stores, as well as more mortgage loans in the matching portfolio. This policy resulted in a relatively slight decline in the return for 2018.

Financial position: the invested assets (see the definition under Key Figures) increased by 10.9 million euros to 435.4 million euros. The obligations increased by 8.0% due to the decline in the interest rate from 1.56% to 1.43%. On balance, the **policy** funding ratio increased from 102.9% to 104.7%, and the **current** funding ratio decreased from 105.3% to 100.4%. As a result, although the policy funding ratio is higher than the minimum regulatory funds of 104.3%, the fund is still in the recovery phase. In 2018, the Social Partners reached agreement on the settlement of the *VUT, prepensioen en levensloopregeling* (VPL, Early retirement, pre-pension and career framework) (VPL) transitional scheme. At year-end 2018, the conditional VPL rights were converted, with a discount, into unconditional obligations and added to the obligations for the relevant members. The implementation will take place in 2019.

Administration, pension scheme, contribution, franchise and indexation

Administration: the pension and financial administration is conducted by AZL N.V., Heerlen. In 2018, the most important developments were (1) Implementation of age 68 pension regulations, and (2) Communication with the members on the Premium Schemes (Improvements) Act.

Pension scheme: The *Pensioenreglement 2015* (pension regulations 2015) with a retirement age of 68 entered into effect for 2018. The scheme is a hybrid scheme with two components: an accrued rights system (DB) and an individual defined contribution scheme (iDC). The scheme can be accessed via the fund's website (2019 update).

Contribution: the total contribution for the scheme is 20.5% of the salary sum, which is financed from the wage bill of the employees and an additional contribution from the employees of 1.5% of the wages.

Franchise and salary levels for pension accrual: at 1 January 2018, the franchise for the (DB) average salary scheme is set at 14,196 euros, with a maximum salary of 105,075 euros for pension accrual.

Indexation: no indexation on 1 January 2018, due to inadequate buffers.

Communication

In 2018, the most important developments were the continuation of the individual pension consultation hours and communication relating to the Premium Schemes (Improvements) Act. The website is an important communication channel for news, quarterly updates, brochures and documents, reporting by the Board and information and background information about the pension schemes, etc.

Risk management

The Board implemented a systematic Integrated Risk Management (IRM) system in 2016, for which purpose it prepared a risk matrix. The IRM provides a 360 degree risk analysis for the fund. The objective is to perform an effective (contained) identification of risks, analyse the risks, determine risk-mitigating measures and identify points for action. IRM is based on (1) an analysis of the gross (inherent) risks, together with their quantification, (2) determination of the risk acceptance level, (3) specification of mitigating measures, (4) determination of the net (residual) risk, (5) assessment of whether the risk is below the net risk acceptance level and (6) determination of any points for action, where relevant. The net risk is quantified and multiplied by the residual risk following the implementation of the mitigating methods to determine the impact of the risk on the fund's funding ratio.

IRM classifies all risks into three main groups, each with various subgroups. The IRM and findings are summarised in **Section 11**.

In 2018, the Board carried out extra risk analyses of AZL's IT system. The Board has established that AZL has good and adequate control of these risks.

5. Pension fund's governance

5.1 Summary

Governance encompasses four main elements:

1. Organisation of governance, expertise;
2. Asset management in accordance with the prudent person principle;
3. The aspiration to realise good-practice policy and operations for the stakeholders, as well as cost control;
4. Insight into and control of risk management;
5. Being in control of policy and operations.

The Board is strongly focused on good governance and is of the opinion that it is, by virtue of the good organisation, in control of the policy and operations and that the risks are acceptable.

5.2 Notes

Re. 1 Organisation of governance:

The Board continually evaluates the organisation of the 'management' of the fund. In 2018, the Board once again established that the organisation and its design are adequate. The Board provides assurances for the continuity of the Board and bodies and for the promotion of expertise. The following members of the Board were reappointed for a second four-year term in 2018 and the beginning of 2019: Mr Loek Ligthart, Mr Richard van Sintemaartensdijk, Mr Eddy Luiken (after nomination by the pension beneficiaries) and Ms Carolien Quint (2019). Three key officers were appointed within the context of IORP II: Certifying Actuary, Mr J. Tol, Audit Officer (acting) Mr R. van Sintemaartensdijk and Risk Officer (acting), Mr K. Boijenga. The positions and duties will be detailed further in 2019.

The fund has opted for a parity Board that works with a full-time director (Management) on continuity and quality assurance. In 2018, the Board assured continuity in the event of the long-term absence of the one-man Management by reaching agreement on the temporary appointment of an AZL Board advisor as acting director.

The fund has opted for the enlargement of the Accountability Body to assure continuity. In 2019, Mr Ruben Vlek was appointed as a candidate member. As a result, the Board, Management and Accountability Body are at full strength.

The Board has one Board Committee, the **Investment Committee**, which is an advisory committee for the Board and has no decision-making powers other than those granted by the Board. The Committee has two members on behalf of the Board (parity), two external experts (temporarily three) and the Chair. The director of the fund acts as Chair to guarantee optimum coordination between the Board, Committee and asset managers. The members are appointed/dismissed by the Board. Mr S. Ifvarsson stepped down at the end of March 2019, and Mr E. Hulshof RBA joined the Investment Committee on 16 April 2019.

Expertise: The fund has adopted an expertise plan. All members of the Board meet the expertise requirements. The Board organises permanent internal and external courses for the members of the Board and Accountability Body. See also **Section 3 Notes to the Board and organisation**. The organisation of governance is laid down in various policy documents.

Re. 2 Asset management in accordance with the prudent person principle

The fund conducts its asset management in accordance with the 'prudent person' rule as prescribed by law. In 2015, Stichting Pensioenfondss Essity's risk policy/ investment risk policy was defined and specified by the social partners (Essity and

employees) on the basis of a preliminary study carried out by the pension fund. This lays the foundations for investments within a stringent risk profile as compared to the obligations and the aspiration for indexation that pivots on spread investments with an optimum return against risks and costs. For this purpose, the fund has adopted the generic 'investment principles' guidelines, including the integrated Environment, Social and Governance (ESG) standards, and 'operating principles' guidelines. The Board and its Investment Committee have knowledge of and expertise in investment and can call on ample expertise available from various selected parties. A broad framework of contracts and agreements on mandates, monitoring, reporting and accountability with respect to asset management also mitigates operating risks (in accordance with Integrated Risk Management analyses, see also **Section 11 Risk Control**).

Re. 3 The aspiration to realise good-practice policy and operations for the stakeholders (policy, operating costs)

Section 3 Organisation and Board also details the mission, vision and strategy in relation to good practice. The internal and external supervisory bodies (Accountability Body, Review Committee) state that they are of the opinion that the Board is in control and that the policy and operations are in order. For *Operating costs*, see **Section 6 Costs**.

Re. 4 Insight into and control of risk management

The Integrated Risk Management (IRM) study revealed that all governance risks are low (see also **Section 11 Risk Control**). The MN and BlackRock rates were set again in 2018. The fund has set up an extra control of the quality of IT at the AZL pension administrator. Various agreements with service providers provide assurances for data protection (GDPR).

Re. 5 Being in control of policy and operations

The Board is of the opinion that it was in control of policy and operations in 2018. In 2018, the Board organised collective supplementary courses on share capital management in Europe and the USA.

No penalties or fines were imposed on Stichting Pensioenfondss Essity during the year under review. Not did DNB give any instructions to the fund, appoint a trustee or bind the exercise of authority by bodies of the funds to permission from the supervisory authority.

5.3 Report from the Board committees

Investment Committee, see **Section 7 Asset Management**.

5.4 Compliance with the Code of the Dutch Pension Funds

The Board analysed the revised Code of the Dutch Pension Funds in 2018, and concluded that SPE complies with virtually all standards.

However, the fund consciously diverges from the Code with respect to the maximum number of reappointments of members of the Board. The Board decided not to lay down a maximum in the articles of association as this could create risks to assurances for continuity and expertise in the relatively small Board.

5.5 Expectations

The Board continues to invest in courses. The current organisational structure exhibits a satisfactory performance and no significant changes in the organisation are expected.

6. Costs

6.1 General

The Board, strives, from the perspective of the pension employment conditions and the risk profile, to maintain an optimum quality (return) – costs (risk) ratio. The pension fund does so by pursuing a prudent policy in all its activities and striving to save costs whenever feasible. Costs are divided into costs of **pension management** and costs of **asset management**. The pension fund incurs high supervision and control costs arising from the relevant statutory provisions. The pension fund must also pay VAT that is charged to the own funds.

VAT

All Member States other than the Netherlands decided to exempt pension funds from VAT on the basis of a ruling from the European Court of Justice. The Dutch State, in the face of fierce resistance from the Dutch pension sector, has defended its taxation all the way to the court. These taxes are to the detriment of the members' pension benefits.

Stichting Pensioenfonds Essity Breakdown of supervisory costs, tax and administration costs in 1,000 euros, costs per member

	2018	per member	2017	per member
Supervisory costs	92	44	84	40
VAT 1)	232	110	176	84
Supervisory and tax	324	153	260	124
Administration	335	159	328	157
Number of members	2,112		2,091	

1) inclusive of VAT on asset management

Costs resulting from legislation

Many new acts enacted in the past years impact the operations of pension funds and increase their operating costs. These costs are paid from the general funds and, consequently, are detrimental to the members' pension benefits.

Although the fund has made every effort to keep these costs as low as possible, these changes in the legislation have nevertheless resulted in both non-recurring and structural increases in costs that lower pension benefits. In 2018, taxes and supervisory costs increased by 25% whilst administration costs increased by just 2%. A list of a number of recent, important changes in the legislation (not exhaustive) and the resultant measures that the Board needed to implement is presented in the table on this page.

6.2 Costs of pension management

The costs of pension management are comprised of:

1. Pension administration costs
2. Operating costs, including communication and pension planner
3. Supervisory and control costs (arising from legislation)
4. Taxes

Note 22 to the annual accounts contains a detailed list of the costs. Studies have revealed that 64% of the operating costs relate to asset management. In 2018, total costs of pension management (after passing on costs to asset management) increased to 611 thousand euros (2017: 543 thousand euros).

Pension administration costs increased due to indexation compensation of the rates. **Operating** costs increased due to the implementation costs of the age 68 pension regulations (140 thousand euros), higher supervisory and control costs and higher VAT payments.

Stichting Pensioenfonds Essity		
New legislation resulting in non-recurring and structural cost increases		
Legislation	Year	Fund's measures
New tax framework	2014	Amendment of pension scheme
Pension Fund Governance (Further Measures) Act	2014	Amendments of regulations and extra training, etc.
Amendments of FTK	2014	Introduction of new UFR and amendments of calculations of funding ratios, etc.
New tax framework and age 67 with 100 k euros	2015	New pension regulations and administration agreements, etc.
Amendments of FTK	2015	Further new UFR, recalculations, introduction of new feasibility study and recovery plan, amendments of ABTR for risk profile, crisis plan, and integrity risks, etc.
VAT decision	2015	Notwithstanding ruling from the European Court of Justice, decision on pension fund VAT liability is upheld
Pension Communication Act	2015	Introduction of Pension 1-2-3
Systematic risk analysis requirement	2015	DNB enforcement
New state pension age	2016	Amendment of regulations, age 67
Communication effectiveness measurements	2016	Measurement costs
Privacy legislation	2017	Maintenance costs
New tax framework	2018	New pension regulations, age 68
Europe: IORP II	2019	Extra governance bodies

In 2018, *pension administration costs per member* were 159 euros (2017: 157 euros).

The pension administration costs of Dutch pension funds range between about 100 and 1,500 euros (Source: *LCP Netherlands Werk In Uitvoering Bij Pensioenfondsen 2014*); the fund's costs are lower than the average costs of Dutch pension funds of a comparable size.

Expectation: the Board expects that costs will decline, as the implementation costs for the new age 68 scheme were non-recurring costs.

6.3 Asset management costs

The asset management costs encompass all costs incurred in the management of the assets, including the costs of the Investment Committee. The pension fund's asset management costs are low as the Board pursues a prudent cost policy for its asset management, for example in its choice between active and passive management, the complexity of the investment products and the selection of managers on the basis of factors including performance fees. The asset management costs are expressed as a percentage of the total average assets managed and are stated in hundredths of per cent (also referred to as 'basis points'). General costs were allocated to asset management in 2018 and 2017, see the statement of asset management costs.

In 2018, asset management costs (exclusive of VAT and after passing on general costs) remained unchanged at 46 basis points.

The fund carries out an annual returns/costs study. The most recent CEM study of 2017 (and previous CEM studies reveal that the fund's performance is around the Dutch average Dutch investment return and asset management cost performance. This is a good performance in view of the fund's considerably smaller scale than the average fund in this Dutch study.

The long-term returns are presented in **Section 7 Asset Management**. These show that the fund is 'recouping' the investment costs relative to the benchmark (without costs) as from 2019.

The fund monitors the effect of variances from the strategic investment mix on the return. In 2018, the approach return was 118 basis points lower (2017: 130 basis points higher) than the return for the (theoretical) investment of the precise strategic mix, largely due to the effect of the fall in the interest rate and the lower interest rate hedge of 38% rather than 50%.

Stichting Pensioenfonds Essity

Five-year review of pension fund costs, amounts in 1,000 euros

	2018	% 1)	2017	% 1)	2016	% 1)	2015	%	2014	%
Asset Management (Source: MN)										
Management fee and Investment Committee	1.457	33	1.324	31	1.106	28	1.040	28	994	31
Performance-related costs	135	3	332	8	405	10	92	2	15	0,5
Transaction costs and other costs excl. custody fee	374	8	197	5	399	10	355	9	157	5
Custody fee	71	2	90	2	70	2	72	2	59	2
Asset Management, total costs	2.036	46	1.943	46	1.980	50	1.558	42	1.225	38
Tax (VAT)	90	2	49	1	55	1	56	1	56	2
Asset Management incl. VAT	2.126	48	1.992	47	2.035	51	1.614	43	1.280	40
On-charged operations 3)	490	11	381	9	450	11				
Asset Management incl. VAT and on-charges	2.616	59	2.373	56	2.485	62				
Pension Management										
Pension administration costs	335		328		318		348		346	
Operating costs	532		385		481					
Supervisory and control costs	92		84		87					
Pension Management, total costs	959	22	797	19	886	24	884	24	639	20
Pension Administration per member, euros	159		157		158		174		178	
Tax (VAT)										
VAT% (weighted)	21,0%		21,0%		21,0%		21,0%		21,0%	
Tax on Asset Management	90	2	49	1	55	1	56	1	56	2
Tax on Pension Management	142	3	127	3	135	4	137	4	121	4
Tax, total	232		176		190		193		177	
Tax per member, euros	110		84		94		96		91	
Pension Management incl. VAT	1.101	25	924	22	1.021	27	1.021	27	760	23
64% on-charged to Asset Management	-490		-381		-450					
Pension Management incl. VAT and after on-charging	611		543		571					
Operating costs, total	2.995	68	2.740	65	2.866	65	2.442	65	1.864	58
Operating costs, total (incl. VAT)	3.227	73	2.916	69	3.056	69	2.579	69	1.985	61
Number of members (active and pensioners)	2.112		2.091		2.015		1.999		1.946	
Average assets, million euros 2)	442		420		400		374		324	

1) Costs expressed a percentage of average assets x 100 (basis points, bps)

2) Average assets during the year calculated by MN Services using the Federation of the Dutch Pension Funds method

3) On-charging of operations from 2017, 2016 pro forma

Stichting Pensioenfonds Essity

Statement of asset management costs in 2018 (AUM in million euros, costs in 1,000 euros)

	AUM				Management fee				Per formance fee	Trans action costs	Other costs	Total transaction and other costs	Cus- tody fee	Total excl. VAT		Total incl. VAT	
	Average invested assets	Basis fee MN product	Basis fee MN asset mgt	VAT	Basis fee external manager	Fee settled in NAV	Total excl. VAT	Total incl. VAT						euros	basis points	euros	basis points
Matching Portfolio	186	25	52	16		187	264	280		18	6	24		288	7	304	7
- Long-term bonds	72	12	52	13			64	78		2		2		66	2	80	2
- Corporate bonds	69					62	62	62		9	6	15		78	2	78	2
- Mortgages	40	12		3		121	134	136				0		134	3	136	3
Overlay investments	2									2		2		2	0	2	0
- cash at bank and in hand	4					4	4	4		5		5		9	0	9	0
- Notional Overlay	72									2		2					
Return Portfolio	256	48	8	8	154	687	881	890	135	291	46	337		1.353	31	1.362	31
- EMD	44					184	184	184		96	12	108		292	7	292	7
- Shares, North America	42	16		3	78	94	97	97	79	34		34		128	3	210	5
- Shares, Europe	52	8		2	76	84	86	86		3		3		87	2	89	2
- Shares, Far East	14					9	9	9		2	4	6		15	0	15	0
- Shares, emerging markets	46					242	242	242		68	15	83		325	7	325	7
- Infrastructure	5					53	53	53	56	12	11	23		133	3	133	3
- Directly in real estate	38	16		3		139	155	158		65		65		219	5	223	5
- Indirectly in real estate	13					60	60	60		9	4	12		72	2	72	2
- Currency hedge, USD	7									2		2		2	0	2	0
- Currency hedge, JPY	-5									1		1		1	0	1	0
- Notional currency hedge	42									3		3				3	0
General asset mgt costs	N/A	312		66			312	378			12	12	70	394	9	389	9
Total	442	385	52	90		875	1.457	1.547	135	309	64	373	70	2.035	46	2.125	48

7. Asset management

7.1 Summary

The fund's asset management is focused – within the boundaries of Dutch law – on portfolio management that yields the best possible results in various potential economic scenarios, i.e. is robust. The objective is to achieve optimum relationships between return, cost and risks.

Risk spread between non-correlated investment categories is an important strategy in controlling risks. In 2018, the focus was placed on a further spread of investments, which involved the build-up of a new position in international infrastructure. The stake in Dutch mortgage loans and retail stores has been increased and the large stake in shares has been reduced. This diversification results in an even more robust portfolio.

Further steps were taken in Environment, Social and Governance (ESG) in 2018. The investments in US Large Cap shares have been rendered ESG-proof and, after consultation with the manager of the direct investments in Dutch real estate, additional UN Sustainable Development Goals have been introduced and reported. As a result, the entire portfolio is now UN ESG-proof, with the exception of investments in US small cap shares. The fund signed the Dutch ESG covenant for responsible investment in 2018.

The pension fund generated a negative return of -1.4% in 2018. The average five-year annual return was 6.7%. An underperformance of an estimated 118 basis points was recorded as compared to the strategic investment portfolio. In 2018, the interest rate hedge was maintained at about 40%. This, with the decrease in the (DNB) interest rate from 1.56% to 1.43% has resulted in a negative effect relative to the strategic interest rate of 50%.

7.2 Policy and operations

In 2018, the investment policy was pursued in accordance with the *Beleggingsplan 2018* (investment plan 2018). In 2015, a number of studies (ALM, feasibility study and test) were carried out in preparation for the Social Partners' specification of the fund's risk profile. The Social Partners have determined that the strategic investment portfolio is expressed in terms of a ratio between the matching and return portfolio. The risk budget is expressed in terms of the Regulatory Own Funds (ROF), which must lie between absolute limits of 117% and 126%. The middle ROF (122%) was selected as the guideline for the strategic mix, which was calculated as 50% Matching and 50% Return in 2015. The risk profile and bandwidths remained unchanged in 2018:

Stichting Pensioenfonds Essity		
Risk profiles and bandwidths		
Risk	Middle	Bandwidth
Regulatory Own Funds (ROF)	122%	117%-126%
Strategic Matching/Return ratio	50%/50%	
Interest rate hedging	50%	max 10% point vs Matching
Currency hedging, USD	50%	plus-minus 10%
Currency hedging, GBP	90%	Ditto
Currency hedging, JPY	90%	Ditto
Liquidity buffer		1%-4%
Balance risk (not a control instrument)	10%	8%-12%

7.3 Breakdown of investments

Historical movement in managed assets in million euros (excl DC and AZL balance sheet items)

	2018	2017	2016	2015	2014
Matching Portfolio	188,8	185,7	187,6	181,3	190,0
- Fixed-income	182,9	183,6	179,5	170,2	176,0
- Matching Overlay	4,5	2	8,8	7,9	13,3
- Liquid assets	1,4	0,2	-0,7	3,1	0,7
Return Portfolio	249,2	250,7	221,3	188,4	169,3
- Shares	130,8	165,7	146,3	133,7	120,3
- Real estate	69,0	43,4	36,0	20,0	16,5
- Currency hedging	0,0	0,1	0,1	0	0,1
- Bonds, emerging markets	49,4	41,4	38,9	34,7	32,4
Total portfolio	438,1	436,4	408,9	369,7	359,3
Total return	-1,4%	5,40%	9,5%	1,1%	20,3%
Total return Benchmark	-0,7%	5,29%	9,5%	0,8%	21%

The *Matching Portfolio* consists of investment classes with the lowest risks, such as government bonds, corporate bonds, mortgages, interest rate hedges and liquid funds. These investment classes have a specific term to maturity that hedges the interest rate risk of the obligations ('matching', see also **Section 16.6. Interest rate risk S1**).

The *Return Portfolio* contains investments with a higher risk profile than those in the Matching portfolio, such as bonds in emergency markets, shares and real estate including infrastructure. The historical movements in the portfolios are presented in the tables.

The Investment Committee held eight consultations in 2018, and discussed issues including economic developments, the position of the portfolio, interest rate hedges and allocation to new investment categories. A great deal of attention was also devoted to the potential impact of a Brexit. The Investment Committee continually reports to and communicates with the Board.

The Board adopted the *Beleggingsplan 2019* (investment plan 2019) in December 2018. Endeavours, in continuation of in 2018, will be made to achieve further diversification in the Matching and Return portfolios. The policy will remain essentially unchanged.

MN submits monitoring reports (weekly, monthly and quarterly) and memoranda with information about the market and considerations to the pension fund throughout the year. The Board issues orders in written instructions. The risk profile of the investments is continually monitored.

The governance structure for the outsourcing of asset management to MN is organised in contracts, SLAs and external reports on internal control (AO/IC). The Board and Investment Committee are continually updated about developments at the other three asset managers responsible for direct investments in Dutch real estate (housing and retail stores) (Altera), shares in Europe and the USA (BlackRock) and Dutch mortgages (Syntrus Achmea Real Estate and Finance, SAREF).

7.3 Environment, Social and Governance (ESG) investment

The fund amended its environment, social and governance investment policy in 2017. The social partners and pension fund strive to achieve optimum returns, but also perceive ESG as crucial from a social and risk perspective. Following consultations with the social partners held in September 2017, new ESG principles were laid down in the form of ambitions. All investments are required to comply with the UN Global Compact Principles at no extra cost. Consequences for returns arising from this decision are accepted. Additional criteria can be adopted following approval from the social partners.

This new ESG policy is also laid down in the Actuarial and Technical Business Report (ABTR) and integrated in the annual investment plan. The ESG policy of MN's fiduciary manager is compatible with the fund's policy.

The successful implementation of the ESG ambition began in 2017. In 2018, ESG screening was introduced for investments in US Large Cap shares.

Following consultations with Altera Vastgoed, work began on the implementation of UN Sustainable Development Goals (UN SDG) at the asset manager. These were also introduced in Altera's annual report 2018. As a result, these investments are also UN-proof. A solution has yet to be found for US small cap shares (Benchmark Russel 2000).

A solution is also being sought for the implementation of ESG criteria for the Defined Contribution investments via ABN Amro Pension Services.

The ESG status of the portfolio, exclusive of Defined Contribution and inclusive of a number of ESG measures implemented by the MN fiduciary manager is as follows:

Stichting Pensioenfonds Essity

ESG status on the basis of UN Global Compact Principles and MN's ESG activities

	Imple- mentation	Status	General notes	ESG activities			Type integration
				Exclusion	Active share- holdership	ESG int.	
- Government bonds	MN	UN-proof 2)		X		X	Investments may be made solely in the best 25% countries in terms of good-ESG criteria are taken into account in active investment criteria
- Corporate bonds	MN	UN-proof 2)		X		X	
- Mortgages	SAREF	n/a	Meets sustainability criteria for real estate and social policy				
- Interest rate derivatives	MN	UN-proof 2)					
- Liquid funds	MN	UN-proof 2)					
- Shares, Europe	BlackRock	UN-proof 1)		X	X	X	Exclusion on basis of UN principles
- US-Large Cap	BlackRock	UN-proof 1)		X	X	X	Exclusion on basis of UN principles
- Shares, USA, Russel 2000	BlackRock	not UN-proof	Solution is being sought				
- Shares, Far East	MN	UN-proof 2)		X	X	X	ESG screening, whereby companies with lowest scores do not qualify for investments. ESG also plays a role in the selection and monitoring of the asset
- Shares, EM	MN	UN-proof 2)		X	X	X	ESG screening, whereby companies with lowest scores do not qualify for investments. ESG also plays a role in the selection and monitoring of the asset
- High-interest securities	MN	UN-proof 2)		X		X	ESG is a selection and monitoring criterion for the external asset manager.
- Real estate, Dutch housing	Altera	UN-proof 3)					
- Real estate, retail stores	Altera	UN-proof 3)					
- Listed real estate, EU	MN	UN-proof 2)		X	X	X	ESG criteria are taken into account in active investment criteria
- Infrastructure	MN	UN-proof 2)		X	X	X	

1) UN-proof relates to the UN Global Compact Principles
2) Meets UN-proof 1), but with additional MN ESG principles
3) Altera introduced and implemented SPE UN Sustainable Development Goals (SDGs) on SPE's request in 2018

General	ESG guidelines are applicable to all MN mandates, inclusive of exclusions, where relevant, and active shareholdership via voting and dialogue policy
Exclusion	Governments/countries/companies acting in contravention of international treaties signed by the Netherlands/EU/USA are excluded.
Active shareholdership	Dialogue (voting) at meetings and/or management. Dialogue is initiated on the basis of breach of the UN Global Compact or major ESG risks.
ESG Integration	ESG integration in, or the determination of, the investable universe (investment strategy, for example ESG screening), or in active investment decision-

Work is ongoing on the development of integral ESG reports (quarterly or otherwise), whereby options for, for example, the specification of a number of climate burden KPIs are being sought.

MN conducts an extensive ESG policy for its funds for which it gives account in quarterly reports. MN signed the United Nation's Principles for Responsible Investment in 2009, and its investment funds meet these criteria. The principles are climate, exclusion, ESG criteria, active shareholdership, and voting. The fund endorses the importance of this policy. Activities in this field carried out by and on behalf of MN are:

Climate: MN has drawn up a climate policy in response to societal developments such as the Paris Agreement on Climate Change, signed in 2015. The fund holds that it bears a responsibility for making a contribution to the reduction of the human footprint on the Earth system (in particular, deforestation and CO² emissions). The pension fund also perceives climate change as an integral element of the Earth system separate from human influence. The fund also strives to make a contribution to the investments required to protect humans from the impact of climate change.

Exclusion: the exclusion policy determines which companies and countries are excluded from potential investments due to their involvement in controversial products or as a result of sanctions imposed by the Netherlands, EU, or USA.

Integration of ESG criteria

ESG criteria are included in the formulation of the investment mandates. MN has a number of portfolios with an investable

universe that is in part determined by the ESG screening of companies and countries. Pursuant to this approach, a negative screening is adopted for share portfolios in developed and emerging countries. Loans for government bonds are furnished solely for countries with good ESG scores. ESG factors also influence the individual investment decisions made by portfolio managers with active investment mandates.

Active shareholdership: the fund acts as an active shareholder on behalf of its members, whereby it votes at meetings of shareholders and conducts constructive dialogues with companies in which it invests.

Voting: The fund's voting policy is implemented for the companies in which investments are made. By exercising its voting rights at meetings of shareholders the pension fund influences the companies' management policy. In doing so, the fund meets the requirements that the legislator imposes on institutional investor such as pension funds.

In 2018, MN, in part on behalf of the fund, devoted attention to the following themes:

Energy transition: testing companies for resilience to energy transition;
Human Rights: testing companies against the UN human rights business standards;

Remuneration: companies must be transparent about remuneration and the responsibility assumed by the Supervisory Board in this respect;

Voting: MN exercises its voting rights on behalf of the fund to influence the relevant company's policy and implementation of the policy.

7.4 Breakdown of investments

Stichting Pensioenfonds Essity Portfolio of investments and returns

	2018					2017	
	Value	% stake	Strategic standard	Return	Return Benchmark	Value	% stake
Matching Portfolio	188,9	43%	50%	3,8%	3,7%	185,8	43%
Fixed-income securities	183,0	42%		1,9%	1,9%	183,6	42%
- Long-term government bonds, Europe	70,3	16%	25%	4,7%	4,7%	72,1	17%
- Corporate bonds, Europe	59,1	13%	25%	-0,4%	-0,7%	73,4	17%
- Mortgages	53,6	12%		1,2%	1,6%	38,1	9%
Interest rate swaps	4,5	1%		5,3%	5,3%	2	0%
Liquid funds	1,4	0%		-1,4%	-0,4%	0,2	0%
Return Portfolio	249,1	57%	50%	-5,0%	-4,5%	250,6	57%
Shares	131,6	30%	30%	-9,8%	-10,0%	165,8	38%
- Europe	39,4	9%		-11,8%	-10,8%	57,2	13%
- USA	38,2	9%		-5,0%	-3,4%	45,4	10%
- Large Caps	25,1	6%		0,6%	0,4%	34,6	8%
- Small caps	13,1	3%		-2,7%	0,4%	10,8	2%
- Far East	12,1	3%		-12,6%	-12,8%	15,8	4%
- Emerging markets	41,9	10%		-11,2%	-10,2%	47,4	11%
Real estate:	67,8	15%	10%	5,4%	5,3%	43,4	10%
- NL direct, housing	19,1	4%		12,1%	8,6%	17,5	4%
- NL direct, retail stores	25,8	6%		6,2%	8,5%	12,8	3%
- Listed EU real estate	12,0	3%		-7,7%	-8,6%	13,1	3%
- Infrastructure	11,3	3%		5,8%	5,8%	0	0%
Bonds, emerging markets	49,7	11%	10%	-3,3%	-2,3%	41,4	9%
Total investment portfolio	438,0	100%	100%	-1,40%	-0,8%	436,4	100%
Total assets							
The total portfolio includes:							
- Current interest investments	0,5					0,0	
- Other receivables and sales of investments	0,1					-0,5	
- Liquid funds investments	-6,8					-5,9	
- Derivatives with negative market valuation	5,3					6,5	
- Other obligations and purchase of investments	8,8					8,4	
Balance sheet value of investments for pension	445,9					444,9	
Long-term returns							
Average annual return	Investments	Obligations	Investments	Excess return	Excess return		
Year-end 2018	Return	(mkt int. rate)	Benchmark	rel. obligations	rel. benchmark		
One-year moving average	-1,4%	4,0%	-0,7%	-5,4%	-0,7%		
Three-year moving average	4,4%	3,2%	4,6%	1,2%	-0,2%		
Five-year moving average	6,7%	7,6%	6,8%	-0,9%	-0,1%		
Since 1 January 2009	8,2%	6,7%	8,2%	1,5%	0,0%		

Notes to developments in 2018 and result

In 2018, invested assets (exclusive of balance sheet items and for the fund's risk) increased from 436.4 million euros to 438.0 million euros.

Matching Portfolio: in 2018, the DNB interest rate declined from 1.56% to 1.43%. This, in general, resulted in increased fixed-income securities, with the exception of the negative return on European corporate bonds. This resulted in a 3.8% increase in the value of fixed interest securities over 2018.

Return Portfolio: all categories (shares, real estate and Emerging Market Debt) achieved positive results due to the increasing global growth in the first half of 2018. However, following the powerful correction in the market at the end of the year (December 2018) shares, in particular, recorded marked negative returns. The increase in the direct retail store real estate and infrastructure positions in the first half of 2018, and the resultant reduced shares position, limited the decline in returns in 2018 due to the poor December month. In 2018, the return on variable-yield securities was -5.0%, and on the total portfolio -1.4%.

The most important decisions/measures/developments in 2018 were:

- The Board drew up and reached decisions on spread opportunities that will provide for even more robust asset management. A study of potential illiquidity in the portfolio resulted in the decision to adopt a maximum of 30%. The mortgage position was expanded in 2018. In the Return Portfolio, the shares position was reduced, the Dutch retail store position via Altera was expanded and the fund began to build up a position in infrastructure (2.5%). The target for 2019 is 5%. The shares positions in Europe and the USA were brought to a 50:50 ratio;
- An ESG investment solution was sought for Large Cap investments in the USA. The decision was taken to switch from the MSCI Index to the S&P 500 Index and for semi-active investments so that ESG decisions can be implemented. BlackRock has adopted the same semi-active investment approach for investments in European and USA shares (large cap and mid and small cap). The fund has used this development to resynchronise the rates. UN SDG was introduced at Altera for direct real-estate management within the ESG context;

- The EMD funds with combined met hard and local currency was divided into two separate funds, the EMD hard currency and EMD local currency funds, whereby the 50:50 ratio was maintained;
- The Board received training in the BlackRock Systematic Active Equity methodology, economic developments for Europe and the US large cap and mid cap, as well as in BlackRock due diligence in the USA;
- Interest rate hedges were maintained at around 40%;
- The *Beleggingsplan 2019* (investment plan 2019) was adopted;
- The development of an integral strategic investment framework document with target will be completed in 2019.

7.5 Other developments

During the year under review, Ms C. Quint (Member of the Stichting Pensioenfonds Essity Board) followed a range of training courses relating to her position as Prospective Member of the Investments Committee.

7.6 Asset management costs

Asset management costs have been rendered transparent in accordance with the recommendations of the Federation of the Dutch Pension Funds. The costs are explained in more detail in **Section 6 Costs**.

7.7 Expectations

Political imbalances and economic risks have increased. Economic growth has also declined slightly, including in Europe. Volatility in the markets has increased and future scenarios are diverging further from each other. The lower growth in Europe has increased the probability of a longer period of low interest rates rather than a slight increase.

8. Administration

8.1 Summary

Important developments in 2018 were:

- implementation of the pension scheme amended on 1 January 2018 in the administration;
- implementation of the Premium Schemes (Improvements) Act;
- dispatch of the uniform pension overview (UPO);
- implementation of the GDPR;
- up-dating of the recovery plan.

8.2 Policy

Administration:

The pension and financial administration is conducted by AZL N.V., Heerlen. AZL has adopted ISAE 3402 and ISAE 3000 reporting which provides insights and assurances for the design, implementation and performance of the internal control. AZL submits quarterly reports to the pension fund on the most important developments in the administration and compliance with the agreements reached.

ABN AMRO Pension Services, Amsterdam, has been appointed administrator of the defined contribution scheme and performs duties including investing the pension capital accrued by members and deferred beneficiaries and keeping the associated investment accounts. This party has also adopted ISAE 3402 reporting and submits quarterly SLA reports.

Implementation of amended pension regulations:

The pension scheme amended on 1 January 2018 was implemented in AZL's pension administration system in 2018. This implementation was completed in the year under review. The major change was the increase in the target retirement date to age 68, the age used in the calculation of pension benefits.

The pension planner on the pension fund's website has also been modified so that members of the pension fund can examine their pension situation and carry out calculations on the basis of the prevailing pension regulations. This modification was completed in the first quarter of 2019. The pension planner is an important aid for members that helps them to gain an insight into their pension situation and make any necessary decisions. This is also the reason why SPE and AZL jointly devoted a great deal of attention in recent years to the appropriate design and performance of the pension planner.

Premium Schemes (Improvements) Act:

This Act, which entered into force on 1 January 2018, enables members and deferred beneficiaries to allocate their accrued pension capital to the purchase of a variable pension benefit on their retirement date with the continued investment of their capital after their retirement. SPE does not offer an option to purchase a variable pension benefit from the fund. Members and deferred beneficiaries who wish to purchase a variable pension benefit need to use their pension capital on retirement date to purchase this from the insurer or bank of their choice. However, SPE does offer members and deferred beneficiaries the option, fifteen years before the normal retirement date, of preparing for the purchase of a variable pension benefit at retirement date by switching to the life-cycle investment scheme set up for that purpose by ABN AMRO Pension Services. This life-cycle investment scheme was implemented in 2018. The communication was rolled out in 2018. Due to the rapid introduction of this legislation the fund was only able to proceed to the sound implementation of the Act during the

course of 2018. The Netherlands Authority for the Financial Markets (AFM) notified the fund that it implemented this legislation too late and that following the tightening up of the advisory function in the legislation it was too late in incorporating this in the options protocol.

Dispatch of the uniform pension overview (UPO):

The Uniform Pension Overview (UPO) for members and incapacitated members was dispatched in September 2018. The pension beneficiaries received the annual UPO in November 2018. Deferred beneficiaries receive a UPO once every five years, most recently in November 2015. As from 2019, deferred beneficiaries will have access to a digital UPO.

In addition to being able to review their pension situation using the information in the UPO and the pension planner, members can also access this information on the *Mijn Pensioencijfers* (my pension figures) portal of the governmental *Nationaal Pensioenregister* (national pension register) (funded by the pension and insurance sector).

Implementation of the GDPR:

The General Data Protection Regulation (GDPR) entered into force on 25 May 2018. This more stringent privacy legislation replaced the Personal Data Protection Act. In 2018, the implementation of this legislation was an important point for attention for SPE and the fund's various service providers. In 2018, SPE concluded a processing agreement with AZL and ABN AMRO Pension Services and adopted a processing register. A privacy statement has also been posted on the website. AZL has formally confirmed to SPE that the administrator has implemented the GDPR in time.

Recovery plan

In 2015, SPE prepared a recovery plan pursuant to the new statutory rules. SPE's financial position was not yet satisfactory at the end of 2017, and this recovery plan was updated in 2018. The updated recovery plan did not reveal any need for additional measures, as the fund expected that it would be able to achieve the minimum required funding ratio within the statutory period.

The recovery plan was updated again at the beginning of 2019. No need was revealed for the implementation of additional measures in 2019.

8.3 Expectations

In 2019, a great deal of attention will be devoted to the settlement of the *VUT, prepensioen en levensloopregeling* (VPL, Early retirement, pre-pension and career framework) on the basis of the decision-making by the social partners and to its processing in the administration.

Ample attention will also be devoted to the implementation of the European IORP II legislation. This will result in administrative changes including in communication, such as UPO communications. In addition to the UPO sent by post to deferred beneficiaries once every five years, they will now need to be offered access to digital annual UPOs. The UPO also needs to state the attainable pension and, from 2020, the expected pension in various scenarios.

At 1 January 2019, the fund has new members from BSN, BSN IPM and Essity Operations Assen (55 members) SCA Logistics gave notice of termination of the administration agreement at the end of 2018. This employer's participation will be terminated at year-end 2019. The fund has received a request from the company for collective value transfer. The Board will assess this request in 2019.

9. Communication

9.1 Summary

Important developments in 2018 (alongside those referred to in **Section 8 Administration**) were:

- Continuation of the pension consultation hours with an explanation of the Essity pension scheme and of the pension planner on the basis of individual pensions;
- Annual provision of information to the Central Works Council and pension beneficiaries.
- Range of communications arising from the Premium Schemes (Improvements) Act and Pension 1-2-3, etc. (see **Section 8**).

The website is an important communication channel for news, quarterly updates, brochures and documents, the Board accounting for its activities and information/background information about the pension schemes. A 2016 survey of the appreciation of the website yielded a high appreciation score of 8.

9.2 Policy and operations in 2018

The Board strives to provide clear and timely communications to the members.

The Board endeavours to achieve this by using a variety of media platforms including:

- Website;
- Information sessions for members, works councils and pensioners;
- Updates in employer publications such as the Absorber and individual communication by letter relating to individual pension commitments;
- The new pension consultation hours (introduced in 2016) held by the Management of the fund, and
- Accessibility/approachability of the Board and Management.

The website offers extensive, up-to-date and timely information about issues including:

- Insight into personal pension situations via a secure website with DigiD login;
- Information about retirement and individual pension planning using the *Pension Planner*;
- Information about the pension schemes;
- Frequently asked questions
- Information about the fund's financial position
- The organisation of the fund;
- News about pension issues and the fund;
- Documents section including forms, schemes, annual reports, new articles and Absorber texts, etc.

The Board receives quarterly reports about the use of the website, members portal, and the pension planner.

Experience with the pension consultation hours held in 2016, 2017 and 2018 (with a total of about 180 consultations) reveals that this scores a bullseye for meeting the information needs of members and their partners. It is expected that 30% of the active members, equivalent to about 400 members, welcome the opportunity to meet and receive individual information. The fund has held a large number of pension consultation hours and expects that continued structural efforts will be made in this respect.

The pension consultation hours are held to provide information about the Essity pension scheme, explain government measures such as the changes to the state pension age and help members in the use of the pension planner to gain an insight into their individual pension situation. The members are enthusiastic about this option, as it helps them to understand and gain confidence in the pension scheme, gain an insight into their pension situation, and take control of their further pension planning.

Numerous statutory requirements are imposed on communication, for example the Pension 1-2-3, UPO and individual communications relating to awarded indexation. This statutory communication is conducted together with the AZL administrator. Management is in continual consultation with AZL to maintain optimum communications. Within this context the Board, in close consultation with AZL, has updated the communication plan to achieve compliance with the new legislation and regulations.

9.3 Expectations

The Board and Management are making every effort to maintain the current form of the pension consultation hours as an extra service for the members.

As from 1 January 2019, the UPO will present an updated summary of the pension rights that takes account of the implementation of the age 68 pension regulations, the settlement of the VPL scheme and the processed salary increases at 1 January 2019.

10. Pension scheme, contribution, franchise and indexation

10.1 Pension scheme

The *Pensioenreglement 2015* (pension regulations 2015) with a pensionable age of 68 entered into effect as from 1 January 2018. This is a hybrid pension scheme that consists of:

- Average salary scheme with conditional indexation
- Defined contribution scheme (individual, mandatory membership)

The total accrual capacity of the scheme is 1.875% of the pensionable salary. The pension regulations were updated for the new legislation and regulations in 2018, and are available from the fund's website. The five-year overview of the pension scheme (accrual rates) is as follows:

Stichting Pensioenfonds Essity							
Pension scheme accrual rates, %							
	2018	2015	2014	2013	2012	2012	2006
	2018	2017					
				1 June-31 Dec.	1 Jan.-31 May		2011
Retirement age	68	67	65	65	65	65	65
Average salary	1,500%	1,500%	1,75%	1,54%	1,54%	1,75%	1,75%
Defined Cont.	0,375%	0,375%	0,09%	0,43%	0,43%	0,43%	0,43%
Vol. savings	0,000%	0,000%	0,00%	0,07%	0,07%	0,07%	0,07%
Total	1,875%	1,875%	1,84%	2,04%	2,04%	2,25%	2,25%

The Certifying Actuary is of the opinion that the received contributions are adequate (the actual contribution is more than the cushioned contribution).

10.2 Contribution policy

The five-year overview of the movements in the contribution rates (in %) for the affiliated companies is as follows:

Stichting Pensioenfonds Essity						
Pension contribution (% of salary sum)						
	2015	2014	2013	2012	2012	2006
	2018					
				1 June-31 Dec.	1 Jan.-31 May	2011
Average earning	17,7%	18,0%	15,0%	14,7%	16,6%	14,6%
Defined Cont.	2,8%	1,8%	2,8%	2,8%	2,8%	2,8%
Total subtotal	20,5%	19,8%	17,8%	17,5%	19,4%	17,4%
VPL scheme	1,6%	1,6%	1,6%	1,9%	2,0%	2,0%
Total	22,1%	21,4%	19,4%	19,4%	21,4%	19,4%

The companies are responsible for the actual payment of the contribution to the pension fund. The fund calculates the cost-effective contribution on the basis of the ten-year cushioned contribution. The contributions are financed from the available wage of the employees for the work they perform. The amount of any extra contribution from the employee is agreed by the social partners and can vary between the affiliated companies.

The methods used to determine the contribution from the affiliated companies and the prevailing additional payment obligation of the affiliated companies are laid down in the administration agreements. A separate administration agreement is concluded with each affiliated company. These may contain specific non-standard provisions. Decisions on the contribution, franchise and indexation are in accordance with the provisions of the administration agreements.

10.3 Cost-effective, cushioned and received contributions

The Pensions Act prescribes that the received contribution shall in principle be at least equal to the cushioned contribution determined in accordance with the Actuarial and Technical Business Report (ATBR).

The Actuary also makes a comparison with the level of the cost-effective contribution.

Stichting Pensioenfonds Essity		
Overview of contributions paid, amounts in 1,000 euros		
	2018	2017
The actual contribution is	16.110	15.107
The cost-effective contribution is	19.963	19.885
The cushioned contribution is	15.821	14.278
<i>The cost-effective contribution consists of:</i>	<i>19.963</i>	<i>19.885</i>
- Contribution actuarially required	15.404	15.545
- Extra sum for maintenance of regulatory funds	2.696	2.706
- Extra sum for administration costs	918	755
- Death and incapacity for work risk premiums	945	879
- Contribution actuarially required for indexation	0	0
<i>The cushioned contribution consists of:</i>	<i>15.821</i>	<i>14.278</i>
- Contribution actuarially required	11.924	10.817
- Extra sum for maintenance of regulatory funds	2.034	1.827
- Extra sum for administration costs	918	755
- Death and incapacity for work risk premiums	945	879
- Contribution actuarially required for indexation	0	0

10.4 Contribution deposit

As from 1 January 2015, the difference between the actual contribution and the cost-effective contribution (on the basis of the ten-year cushioned interest rate) is added to the 'contribution deposit appropriate reserve' (future contributions). As from 1 January 2015, a return is added to this deposit. Additional payments from the contribution margin are made to a maximum of four million euros. The return also continues to be added thereafter. The social partners have agreed that the contribution surplus resulting from the age 68 scheme and the VPL contribution 2020 (due from the employer in 2020) will also be credited to this deposit. Positive contribution margins (exclusive of the aforementioned extra contributions) will thereafter accrue to the general reserve of the fund. Negative contribution margins are made up from the deposit until the deposit is exhausted. The contribution deposit is not included in the funding ratio of the fund. The maximum balance of four million euros was reached during the course of 2017, after which transfers of the contribution margin ceased. As from 1 January 2018, movements in the contribution deposit are due solely to interest credited or debited to the deposit and the aforementioned extra accruals.

Stichting Pensioenfonds Essity

Contribution deposit in million euros

	2018	2017	2016	2015	2014
Contribution deposit	4,467	4,238	3,887	2,016	0

10.5 Franchise

The franchise is adjusted annually by the increase in the statutory minimum franchise. The fund's franchise is above the minimum amount permitted by the tax regulations.

Franchise, in euros

	2018	2017	2016	2015
Average salary scheme	14.196	13.961	13.780	13.449
% increase	1,68%	1,31%	2,46%	

10.6 Conditional indexation policy

The *Pensioenreglement 2015* (pension regulations 2015) provide for an average salary scheme with a conditional indexation policy whereby a supplement may, depending on the financial position, be granted annually on 1 January. Indexation supplements are granted to (1) active members and (2) pension beneficiaries and deferred beneficiaries. No contribution is paid for indexation and the fund does not have an appropriated reserve for indexation. Any indexation is financed from achieved returns. The reference indexes are as follows:

Stichting Pensioenfonds Essity

Conditional indexation policy 1)

Active participants	Non-active members
Weighed average CLA wage increase in previous year	CPI, derived, all households, October-October previous year

1) conditionality: no indexation when PFR < 110%, linear indexation with PFR of 110%-120%. Catch-up indexation feasible to a maximum of five years.

In February 2018, the fund's Board decided not to grant indexation as from 1 January 2018, as the policy funding ratio of 104.7% at year-end 2018 was lower than 110%.

The following indexation supplements have been awarded to the accrued pensions of the members in the years since 2006:

Stichting Pensioenfonds Essity

Indexation

At 1 Jan.	Active		Non-active	
	Index	Award %	Index	Award %
2006	1,25%	100%	1,45%	161%
2007	1,80%	100%	1,25%	171%
2008	1,90%	100%	1,50%	100%
2009	3,40%	0%	2,53%	0%
2010	3,04%	50%	0,40%	50%
2011	1,25%	0%	1,38%	0%
2012	1,97%	0%	2,33%	0%
2013	2,16%	0%	2,03%	0%
2014	2,00%	100%	0,90%	100%
2015	1,57%	0%	0,75%	0%
2016	1,52%	0%	0,40%	0%
2017	1,62%	0%	0,36%	0%
2018	2,05%	0%	1,34%	0%

11. Risk Management

11.1 Summary

The Board has implemented a systematic Integrated Risk Management (IRM) system, for which purpose it prepared a risk matrix that was adopted in an extra meeting of the Board held on 6 January 2016.

The IRM provides a 360-degree risk analysis for the fund. The objective is to carry out an effective (contained) identification of risks, analyse the risks, determine risk-mitigating measures and identify points for action.

IRM is based on the (1) analysis of the gross (inherent) risks, together with their quantification, (2) determination of the risk acceptance level, (3) specification of mitigating measures, (4) determination of the net (residual) risk, (5) assessment of whether the risk is below the net risk acceptance level and (6) determination of any points for action, where relevant. The net risk is quantified and multiplied by the probability of the materialisation of the residual risk after the implementation of mitigating measures to determine the impact of the risk on the fund's funding ratio.

IRM classifies all risks into three main groups, each with various subgroups. The IRM and findings are summarised in the following table.

					able?		
1 Financial risks	FR1	Key issues (6)	4	1	1	yes	0
	FR2	FTK factors (8)	6	1	1	yes	0
	FR3	Other (7)	4	1	2	yes	0
2 Non-financial risks	NFR1	Board (4)	4			yes	0
	NFR2	Milieu (1)	1			yes	0
	NFR3	Operational (1)	1			yes	0
	NFR4	Legal (2)	1			yes	0
	NFR5	IT (1)	1			yes	0
	NFR6	Communication (1)	1			yes	0
	NFR7	Outsourcing (12)	12			yes	0
3 Integrity risks	IR1	Conf. int. (5)	5			yes	0
	IR2	Corruption (1)	1			yes	0
	IR3	Cybercrime (4)	4			yes	0
	IR4	Fraud (2)	2			yes	0
	IR5	Behaviour (1)	1			yes	0
	IR6	Insider Knwl. (1)	1			yes	0
	IR7	Sanctions leg. (1)	1			yes	0
	IR8	Tax (1)	1			yes	0
	IR9	Money laundering	1			yes	0

PA = point for action

■ FIRM risk qualification: probability and impact are low, risk is acceptable impact on funding ratio maximum of approx. 2%3%point

■ Ditto, average, further investigation of the risk is required and measures/further measures are needed. Potential impact on funding ratio approx. 2%5%point

■ Ditto, risk remains high after mitigating measures, where relevant. The Board, in view of its risk appetite, will implement further issues unless the risk is consciously accepted or the fund has no access to mitigating measures. Potential impact on funding ratio >5%point

The most important conclusions and findings from the IRM are:

- High net risks (red) can arise from the Board's risk ambition, for example the decision to make risky investments in shares to increase returns. Alternatively, it is possible that the risks cannot be controlled, such as risks relating to political legislation. The benchmark selection risk is open in this category: this is a point for attention.
- Identified average risks (yellow) relate to risks such as partial interest rate risk hedges, reserves shortfall, and the unpredictability risk of supervisory authority measures. The identification of the IT risks is needs to be improved to provide for the determination of the actual residual risks. A point for action has been formulated to address this issue.
- Mitigating measures have reduced most risks to low levels. Legal risks such as duty of due care risks are low.

However, documents need to be continually assessed to verify their completeness and legal adequacy.

- Integrity risks fall within the scope of IRM and are analysed on the basis of the DNB analytical methodology. The gross risks other than Cybercrime risks are low. The net risks are low.
- General point: the IRM analysis reveals that mitigating measures are specified and have their origins in various documents including the Articles of Association, administration agreements, pension regulations and other regulations such as the code of conduct, expertise plan and appointment regulations, SLAs, reporting requirements and monitoring, etc. The mutual context in relation to risk management, etc., is specified in the ABTR. The Board has decided that IRM and the risk matrix must be discussed at regular intervals and has placed these issues on the agenda. Management also needs to identify developments in various risk areas at several times during the year.

Developments in 2018

No new risks were identified in 2018, and the analysis is up to date. However, the fund has decided to expand control of the IT risk management of the pension administration of/by the AZL and to implement backstop measures for the 1-man Management.

AZL's IT: The fund has requested AZL to give comprehensive written and oral account for its IT risk management policy. All documents relating to the accountability for and audits of this policy have been compiled on the request of the fund. It has been agreed that officers including the Risk Key Officer will hold annual discussions on these documents with Management. In 2018, this control established that AZL's IT risk management is in order.

Backstop for the one-man Management: the fund and AZL have agreed that AZL will make a Board advisor available in the event of the long-term absence of the Director who will perform the day-to-day duties at the offices of the pension fund in Zeist on three days a week. The Board can seek another solution in the event of the structural absence of the Director.

Notes to the main categories and subcategories and a summary of the mitigating measures are enclosed in the following subsections.

11.2 Financial risks (FR)

FR1 key issues:

1. Solvency risk
2. Reserves risk
3. Inflation risk
4. Contribution risk
5. Adjustment of scheme/contract risk
6. Sponsor risk

Re. 1 Solvency risk

This is the risk of the fund being unable to meet its pension commitments. The risk is mitigated to the maximum possible extent by the Administration agreements concluded between the fund and the employers, in part by the agreement with the sponsor on additional payments that avoid the need for pension reductions. Assessment: very low risk.

2. Reserves risk

This is the risk of the buffers being too low to absorb downward shocks. This risk has materialised. The fund's assets are currently lower than the minimum regulatory own funds and the regulatory own funds. This is a high risk. The Board considers the risk to be acceptable: studies indicate that the fund can recover. Assessment: high risk, but acceptable.

Re. 3 Inflation risk

This is the risk of the depreciation of nominal pension commitments. The risk is in part hedged within the design of the risk profile and the strategic investment mix. The probability of indexation is determined in a feasibility study and test. The findings are communicated to the Social Partners, who accept the outcome. The probability of inflation adjustment is currently low. Assessment: medium risk, acceptable.

Re. 4 Contribution risk

This is the risk of the contribution being insufficient to finance the pension commitments. The fund requires and receives a cost-effective contribution. Assessment: low risk.

Re. 5 Adjustment of scheme/contract execution

This is the risk of the social partners deciding to adjust the scheme. The fund accepts the legal opportunity available to the social partners to make interim adjustments to the scheme. An adjustment requires an amendment of the Administration agreement, when the fund can adopt its own position.

Assessment: low risk.

Re. 6 Sponsor risk (1)

This is the risk of the sponsors failing to fulfil their financial obligations (contribution and/or additional payment). The sponsor's solvency is good and transparent and is continually monitored. Assessment: low risk.

Re. 6 Sponsor risk (2)

This is the risk of the sponsor terminating the administration agreement. As the sponsor could decide to do so, the fund has reached agreement, in advance, on substantial resolute factors. Assessment: low risk.

FR2 FTK factors:

1. Interest rate/matching risk	S1
2. Variable-yield securities risk	S2
3. Foreign exchange risk	S3
4. Commodities risk	S4
5. Credit risk	S5
6. Underwriting risk	S6
7. Liquidity risk	S7
8. Concentration risk	S8
9. Operational risk	S9
10. Active management risk	S10

Re. 1 Interest rate/matching risk S1

The interest rate risk expresses the potential impact on the funding ratio due to a change in the market rate of interest on the value of fixed-income investments against the pension obligations.

The fund has formulated policy to use interest rate swaps to balance interest rate exposure against the time to maturity. This policy is included in the investment plan. These interest rate swaps are carried out by the fiduciary asset manager and are reported in accordance with the provisions of the Service Level Agreement. The interest rate swap hedges part of the interest rate risk.

At the end of 2018, the actual interest rate hedge on the basis of the DNB interest rate shocks was 36.9%. The 2018 policy is explained in **Section 7 Asset Management**.

The following is a rule of thumb for the estimation of the interest rate risk exposure: duration of the obligations (2018: 20.9 years) times the interest rate movement times the interest rate hedge. On the basis of this rough estimate, the movement due to a 1% interest rate movement with a strategic interest rate hedge [of 50%] is about: $20.9 \times 1.0\% \times 50\% = \text{approx. } 10\%$.

Mn-Services carried out a year-end 2018 analysis of the impact of a parallel interest rate shock of 1% point on the funding ratio (on the basis of the initial monthly funding ratio):

Stichting Pensioenfonds Essity			
Effect of parallel interest rate shock of 1%-point on the fund			
Interest rate shock	0%	1%	-1%
Funding ratio	100,4%	110,2%	91,6%
Change in FR in %-point		9,8%	-8,8%

In 2018, the derivative interest rate decreased from 1.56% to 1.43%. This had a detrimental effect on the funding ratio. Assessment: medium risk, but acceptable.

S1 strategic 2.0%

2. Variable-yield securities risk S2

The investments in variable-yield securities can vary and thereby influence the funding ratio. The volatility of variable-yield securities is accepted within the limits specified in the pension fund's risk profile as determined by the social partners. Diversification is the best approach to the mitigation of the risk. The variable-yield securities risk is taken into account in the calculation of the regulatory own funds. Assessment: high risk, in accordance with the fund's risk profile.

S2 strategic 11.8%

Re. 3 Foreign exchange risk S3

Exchange rate fluctuations can be used to increase returns. However, the Board has decided to restrict the policy to hedging exchange rate fluctuations. The Japanese Yen exchange rate risks are 100% hedged, the Pound Sterling and European listed real estate portfolio are not hedged. In 2018, the US Dollar was 50% hedged. Assessment: low risk.

S3 strategic 1.7%

Re. 4 Commodities risk S4

As the fund does not invest in commodities this risk is not applicable.

Re. 5 Credit risk S5

'Credit risk' is the risk of financial losses due to the insolvency or inability to pay of counterparties that owe or potentially owe debts to the pension fund. This, in the pension fund's situation, relates primarily to investments in bonds. The credit risk is limited by spreading investments in fixed-income securities by region, counterparty credit rating and sector.

The credit spread is a useful measure of the credit risk and determines the markup on the risk-free interest rate. This markup increases with the market's assessment of a party's credit risk and is indicative of the increase in the fee (the spread) that the market requires to be prepared to take the risk. The credit spread for long-term bonds is virtually 0, and for corporate bonds 0.5%. The fixed interest security rating classes at year-end 2018 are:

Stichting Pensioenfonds Essity
Fixed-income securities rating classes

	2018	2017
AAA	47,0%	43%
AA	7,0%	7%
A	16,0%	18%
BBB	20,0%	23%
Lower than BBB	9,0%	8%
No rating	1,0%	1%
	100,0%	100%

Assessment: low risk.

S5 strategic 2.9%

Re. 6 Underwriting risk S6

In addition to financial risks, the fund is also exposed to underwriting risks. The most important of these underwriting risks is the longevity risk: other risks are the short-life risk and the incapacity risk.

The amount of the pension obligations reserve is determined on the basis of prudent assumptions that include age adjustment factors and future increased longevity. The fund has adopted the Royal Dutch Actuarial Association's projection table for 2018 (effective from 2019) calculated with the mortality-experience data from 2017.

The fund has reinsured the death and incapacity risks with Elips Life since 1 January 2016. Assessment: low risk.

S6 strategic 0.5%

Re. 7 Liquidity risk S7

This is the risk of the fund having insufficient liquid funds for the pension benefit obligations. This is not currently an issue. The liquidity risk is set at 0% for the time being.

S7 strategic 0.0%

Re. 8 Concentration risk S8

Large investment items can be regarded as a form of concentration risk. A large item is an item that represents more than 2% of the balance sheet total. From 2016, 0%.

S8 strategic 0.0%

Re. 9 Operational risk S9

The operational risk is the risk that arises from the failure or inadequacy of internal processes, human and technical shortcomings, or unexpected external occurrences. The fund's risk management needs to take account of the operational risk. This can result in the maintenance of a reserve in the own funds. The standard model sets the exposure of the assets to the operational risk at 0%.

S9 strategic 0.0%

Re. 10 Active management risk S10

This risk arises when investment managers actively diverge from the investment indexes to achieve higher results, in particular in the management of shares. The fund strives to achieve an optimum return - risk ratio. The fund, in principle, pursues passive investment unless it is convinced that active management will improve the ratio. Assessment: low risk.

S10 strategic 0.1%

FR 3 Other financial risks:

1. Weighting of the portfolio
2. Counterparty risk including cash management and security lending
3. Illiquidity and liquidity
4. Benchmark
5. Politics/legislation
6. Supervisory authority
7. Costs

Re. 1 Weighting of the portfolio

This is the risk of the portfolio developing outside the agreed bandwidths. This risk is minimised with continual monitoring and proposals for changes. Assessment: low risk.

2. Counterparty risk including cash management and security lending

This is the risk of the counterparty being unable to make further payments, for example in the event of derivatives with counterparties. Cash management relates to the selection of counterparties and to control of the illiquidity risk. Security lending relates to loans with collateral. The risk is kept low with a series of measures including cash management, the stringent selection of counterparties and monitoring, possibly supplemented with physical collateral (in the event of security lending). Assessment: low risk.

Re. 3. Illiquidity and liquidity

This is the risk of the inability to convert assets into cash at the required pace. The fund strives to always maintain sufficient liquidity. Measures include, for example, ensuring that the percentage of illiquid investments in the portfolio is low and cash management that is in part based on stress scenario analyses. Assessment: low risk.

Re. 4 Benchmark

Benchmarks are largely based on past results. The decision to follow a benchmark with investment allocation is then based on results achieved in the past: however, this is accompanied by the risk of very different results in the future. Consequently, using benchmarks for investments offers false certainty. This is a high risk, for example within the context of stranded assets (such as in the oil sector) and of changes in earning models in sectors such as the financial sector. Assessment: high risk, monitored closely by the Board, Investment Committee and Fiduciary Manager.

Re. 5 Politics/legislation

This is the risk of the legislator collecting funds from the pension fund or amending legislation in a manner that results in a significant change in the long-term prospects or influences the funding ratio. Experience from past years reveals that this risk has often materialised and, consequently, the risk is very high. The fund is a member of the Federation of the Dutch Pension Funds that endeavours to exert an influence on politics. The Dutch, in view of changes made in past years, have an unfavourable opinion of the reliability of politics/legislation with respect to honouring agreements on long-term financial frameworks and other agreements. Assessment: high risk.

Re. 6 Supervisory authority

This is the risk of the Supervisory authority requiring changes that are not in the interest of the members or of the stakeholders and/or fall outside of the statutory framework. The fund assesses instructions from the Supervisory authority to determine (1) their statutory basis, (2) whether they are in the proportional interests of the stakeholders and (3) whether they are in conflict with existing agreements. The fund, via the Federation of the Dutch Pension Funds, consults with the Supervisory authority on measures. The fund can also, as the occasion arises, opt for testing before the court. Assessment: medium risk, not acceptable.

Re. 7 Costs

This is the risk of the cost inefficiency of the fund that results in a structural dampening effect on funding ratio development. The fund strives to maintain an optimum quality/return - cost ratio. Studies have revealed that the fund's asset management and operating costs are low or relatively low (see also **Section 6 Costs**). Assessment: low risk.

Non-financial risks (NFR)

- NFR 1 Governance risk
 - 1a Continuity risk
 - 1b Asset management risk
 - 1c Board liability risk
- NFR 2 Business milieu risk
- NFR 3 Operational risk

- NFR 4 Legal risk
- NFR 5 IT risk
- NFR 6 Communication risk
- NFR 7 Outsourcing risk

Re. 1 Governance risk

Governance is of crucial importance to the appropriate, efficient and justifiable management of an organisation. Society devotes a great deal of attention to this issue.

The governance discussions relating to the pension funds resulted in the *Wet Versterking Bestuur Pensioenfondsen* (WVBP, Pension Fund Governance (Further Measures) Act) that entered into force on 1 July 2014. Governance requirements had previously been laid down in the *Principes voor Goed Pensioenfondsbestuur* (PFG, principles of good pension fund governance).

In practice, an important administrative risk confronting pension funds is the risk of the lack of continuity in the operations and in the expertise required to manage professional service providers. The Board of the pension fund has accommodated this important point for attention by organising a pension fund Management with one full-time officer (Director).

This, in governance terms, results in the ability of the Board to concentrate more on its policy duties and the adoption of policy. The pension fund's Management reports to the Board and closely monitors the operations, risk management, provision of advice and accountability. The mandate of the pension fund's Management is laid down in the *Reglement Pensioenfondsen Directie/Directeur-secretaris* (pension fund management/management secretary regulations). This model was formally adopted in September 2009, and revised on 31 December 2010, but has as such been in effect since the appointment of the Director on 1 November 2007. The performance of this governance model is in line with expectations.

Prudent administration, expertise, communication, openness, internal supervision and accountability are all important pension fund governance issues. The Board has implemented measures in all these sub-areas, in accordance with the provisions and recommendations of the supervisory authority and the Federation of the Dutch Pension Funds. The Board proactively addresses new legislation/supervisory authority and/or societal developments.

In 2017, the Board, in cooperation with an external party, conducted a self-evaluation relating to the strong focus on training and expertise. In 2017, the external party assessed the risk as low. The 2018 self-evaluation did not reveal any new, additional risks.

Re. 1a Continuity risk

This is the risk of the continuity of the administration being put in jeopardy by the departure of members of the Board/Management. The Board strives to provide for adequate collective expertise and continuity at all times. Within this context, the Board endeavours to arrange for acting officers for departing members of the Board/Management, or advisors, and for the timely appointment of successors. There is a possibility that members of the Board/Management are no longer available to the fund. The Board has sufficient qualified administrators to absorb any such absence. AZL can make a Board advisor available in the event of the long-term absence of the Director

who is stationed at the offices of the pension fund in Zeist on three days a week. Assessment: low risk.

Re. 1b Asset management

This is the risk of incorrect asset management decisions being made when implementing the strategic investment policy. Controlling this risk is primarily a governance issue. Great expertise and experience are required. The fund has assured for these by appointing an expert Investment Committee with members including members of the Board and an advisor as the fiduciary manager. This combination has achieved good results in the past years. Assessment: low risk.

Re. 1c Board liability risk

This is the risk of members of the Board being no longer able to independently fulfil their position. The Board has taken out collective insurance. Assessment: low risk.

Re. 2 Business milieu risk

This is the risk of failing to respond adequately to changes in (1) the competition, (2) stakeholders, (3) reputation and (4) entrepreneurial climate. The fund strives to continually harmonise its policy on these elements. The Board and Management monitor and discuss these changes throughout the year. Assessment: low risk.

Re. 3 Operational risk

This is the risk arising from inefficiently-designed processes and operations. The materialisation of this risk of inefficiently designed processes could result in mistakes being made, excessively long processing times or unacceptable service levels for members. This could be an issue with processes including the following:

- Acceptance of new members
- Changing member details
- Benefits and payment
- Settlement
- Reporting
- Product development
- Processing of statutory value transfers
- Automated interfaces with external parties
- Communication with members

The fund intends to mitigate these risks for as far as is possible. In doing so, the fund strives to implement best practice process design and operations to achieve optimum efficiency (best possible quality - costs ratio).

The quality of the operations is assured by the integral management of the processes for which the fund is responsible. The fund has adopted AO/IC principles to provide assurances for the efficient optimum of the processes or elements of processes that are carried out by the fund. The fund has implemented risk management measures for outsourced processes that are focused specifically on these processes (see NFR 7.1 to NFR 7.12 inclusive).

In principle, the fund opts for the lowest costs unless the selection of a more expensive supplier or solution will result in a demonstrable substantial increase in quality.

The Board, Management, associated persons and service providers monitor the application of these principles in the operational chain. Measurements, an important element, are carried out using benchmarks, market research, requests for proposals and every other process that can yield information. Endeavours are made to immediately tackle any identified shortcomings. Assessment: low risk.

Re. 4 Legal risk – contract risk

This relates to

- Non-compliance with contracts
- Unenforceable contracts
- Liability

Contracts must be clear and protect the interests of the fund and stakeholders. Contracts must also be flexible with respect to changing legislation and regulations so that they cannot result in detrimental consequences for stakeholders.

The fund attaches great importance to good contracts and for this reason seeks specialists who can assess and coordinate contracts. The contracts are primarily intended to ensure that the Board is in control or to provide for reports, etc., that guarantee that the Board is in remote control. Contracts are prepared with the greatest possible legal precision. Contracts are managed with due care and are enforceable whenever feasible.

Many contracts and documents have been renewed to accommodate recent amendments to legislation and regulations and, consequently, are future-proof. Contracts are usually comprehensible and are always duly signed by at least two members of the Board, as are most Board decisions. Contracts are readily available and, as the occasion arises, can be evaluated or amended with adequate expertise. Assessment: low risk.

Re. 4 Legal risk – due care risk

This is the risk of the failure to perform the duty of due care in the appropriate manner and, as a result, give rise to incorrect expectations by members (stakeholders), or the provision of incorrect information that results in incorrect decision-making which causes or has caused disproportionate harm to members. The fund intends to avoid due care risks by ensuring that stakeholders receive optimum information by:

- Striving to provide crystal clear explanations or information, in part by the use of explicit and unequivocal language;
- Managing expectations with publications on the website or provision of information using other media channels;
- Performing critical agreements in contracts with members only once signed instructions are received (confirmation).

Assessment: low risk.

Re. 5 IT risk

This is the risk that business processes and information provided are:

- Insufficiently correct and/or ethical
- Insufficiently continuous
- Insufficiently secure

Systems must be correct and ethical, continually available and sufficiently secure. Virtually all processes such as pension administration and actuarial control run on the AZL systems. Asset management is carried out by MN and the defined contribution scheme by ABN AMRO and AZL. Death and incapacity risks are reinsured with Elips Life.

NB. Cybercrime risks have been analysed in more detail as a component of Integrity risks.

These are largely checks and balances of the relevant parties and various AO/IC processes that are periodically monitored and reported. More specifically:

- Formulation of information security policy and plan
- External assessments of IT
- Checks/periodical contingency tests
- Security of network/Backup tests
- Risk analysis, loss/theft
- Contingency options (such as working at home) in the event of disasters

Service providers have organised these checks and balances, the findings from which are reported in ISAE 3402 statements. Consequently, the risk is low. However, there are a tremendous number of developments in IT and an increased risk of

cybercrime. The Board and Management strive to improve their control of and insights into these IT risks every year. Assessment: medium risk.

In 2017, the fund modernised and updated the contract and SLA with AZL. A number of new provisions have been included for assurance and compliance purposes within the context of IT control and the General Data Protection Regulation (GDPR). The fund, in consultation with AZL, has also made extra efforts in the assessment of the AZL IT systems. The Board is convinced that AZL is in control of its IT, an assessment that is in part based on the successful outcome of a COBIT audit carried out for another fund affiliated with AZL. Nevertheless, in 2018 the Board requested AZL to increase its efforts with respect to the controllability of IT processes, either by including additional explanations in the ISAE reports and/or by making the generic COBIT analyses available.

Re. 6 Communication risk

This is the risk of insufficient or obscure communication. Communication must comply with the provisions of the Pensions Act and must be more than adequate to ensure that other risks do not arise. Information provision agreements have been reached with the AZL service provider.

Close monitoring and consultations between the Board and Management provide for improvements. Assessment: low risk.

Re. 7 Outsourcing risks

Outsourcing risks are classified in twelve categories:

- Outsourcing policy (2x)
- Selection of external party (3x)
- Governance and monitoring of outsourcing relationship (5x)
- Evaluation of outsourcing relationship (2x)

The Board wishes to mitigate the risks in these categories for as far as is possible. This is achieved with a range of control measures that are described in detail in the IRM. Consequently, the residual net risks are low. Assessment: low risk.

11.4 Integrity risk (IR)

A distinction is made between nine integrity risk categories, with various subcategories, pursuant to the DNB requirements for systematic integrity risk analysis:

IR 1	Conflicts of interest (5 subcategories)
IR 2	Corruption
IR 3	Cybercrime (4)
IR 4	Fraud (2)
IR 5	Behaviour
IR 6	Market manipulation (insider trading)
IR 7	Evasion of sanctions legislation/regulations
IR 8	Evasion or avoidance of tax regulations
IR 9	Money laundering and/or terrorist financing

The IRM analyse has revealed that the gross (initial) integrity risks with an impact on the funding ratio are low to at most medium level. The mitigating measures, most of which are described in detail in the Articles of Association, administration agreements and, in particular, the code of conduct, mitigate the risks to low levels. Assessment: low risk.

12. Fund's financial position

12.1 Summary

In 2018, the current funding ratio decreased from 105.3% to 100.4%, due to a negative return on assets of -1.4% and an 8.0% increase in obligations. The policy funding ratio increased from 102.9% to 104.7%, due to the good first half of 2018. The increase in obligations is in part due to the decline in the derivative interest rate from 1.56% to 1.43%. The fund implemented the Royal Dutch Actuarial Association's new 2018 mortality table in September 2018. This resulted in an approximately 1.0% decline in the obligations in September.

Stichting Pensioenfonds Essity

Fund's financial position, in million euros

	2018	2017
UFR derivative interest rate	1,43%	1,56%
Result	-21,1	30,9
General reserve	1,7	23,0
Invested assets for fund's risk	435,4	424,5
Total assets for FR	468,4	458,1
Obligations for fund's risk	433,7	401,5
Total obligations for FR	466,8	435,1
Policy funding ratio	104,7%	102,9%
Current funding ratio	100,4%	105,3%
Minimum required funding ratio	103,9%	103,9%
Required funding ratio on basis of strategic mix	117,6%	117,5%
Real funding ratio	85,4%	83,8%

See the Key figures table for notes to the figures

12.2 Recovery plan and feasibility test

Pension funds must submit a recovery plan when the policy funding ratio falls below the required funding ratio. This plan must be submitted within three months of the discovery of the shortfall. The indicator is the policy funding ratio (for the fund's risk and for the members' risk).

The fund submitted recovery plans in 2017 and 2018, and had a shortfall at year-end 2018. However, the 2018 recovery plan demonstrated that the fund will be able to recover to the required funding ratio within a ten-year recovery period (exclusive of any contributions from additional payments by the employers, where relevant). The update recovery plan for 2019 also reveals that the fund will recover to the required funding ratio in time (within the ten-year period).

Stichting Pensioenfonds Essity

Funding ratio movements in 2018 and 2018 recovery plan

	Actual	2018 recovery plan
Begin 2018 (actual, fund's risk)	105,7%	105,8%
- Contributions	-0,4%	-0,5%
- Benefits	0,1%	0,1%
- Indexation	0,0%	0,0%
- Interest rate structure	-4,9%	0,0%
- Excess return	-1,2%	4,0%
- Other movements	1,1%	-0,1%
End 2018 (actual, fund's risk)	100,4%	109,3%
End 2018 (FR policy, fund's risk)	105,1%	107,6%

The fund's policy funding ratio of 104.7% at year-end 2018 is above the minimum required funding ratio of 103.9%, as a result of which the fund no longer had a funding shortfall at year-end 2018.

On the basis of the commencement date of the recovery plan and the ratio at the end of 2018 an additional payment in the 2015-2020 period will be necessary only if the year-end policy funding ratio falls below about 90% at year-end 2019 and/or 2020. Any new obligation to make an additional payment will materialise only in 2024, if the policy funding ratio is lower than the minimum regulatory funds at year-end 2019, and/or – earlier – if the policy funding ratio falls below about 90% in the 2019-2024 period.

The fund performs a DNB feasibility test once a year. This assesses whether the fund's expected pension result remains above the lower limit selected by the fund (80%) and whether the result deviates by no more than 25% in a stormy-weather scenario. The 2018 test yielded a favourable outcome, with an expected pension result of 97.2% and a deviation of 16.6%.

12.3 Policy

The policy governing the financial position encompasses a large number of facets. The main facets are:

- Governance and cost control (**Sections 5 & 6**)
- Asset management (**Section 7**)
- Contribution, franchise and indexation policy (**Section 10**)
- Integrated risk policy (**Section 11**)

The policy on these facets are explained in the sections referred to above.

12.4 Notes to the result

The following results are based on the analysis carried out by the actuary. The main payment flows are:

- *Contributions*: whether these cover the increase in the provisions, supplementary payments and administrative costs after deducting a fixed cost provision
- *Investments*: the ratio of the investment returns to the result with a short-term interest rate
- *Indexation*: the indexation amount paid
- *Costs*: the ratio of the actual costs to the available amounts from the contributions and provisions
- *Probability system*: the result for mortality and incapacity, etc.
- *Interest rate structure*: the payment flow arising from changes in the interest rate structure
- *Principles*: result due to changes in the principles
- *Movement in the technical provisions*: change in the technical provision.

Contribution	-1.157	-2.072
Investments	-5.198	22.218
Indexation on 1 January	0	0
Costs	0	0
Probability systems	305	1.660
Interest rate structure	-19.673	6.230
Acc. principles changes	4.357	3.153
Pension scheme changes	0	-382
Trans. scheme contribution	2.174	1.061
Other	-1.885	-1.013
Net Result	-2.1077	30.857

Notes to the result components

Result from contributions

The - 1.2 million euros result from contributions was less negative than the result in 2017 (-2.1 million euros): the interest rate at the beginning of 2018 was higher than at the beginning of 2017, and the costs of new pension accrual decreased due to the transition to the age-68 target retirement age.

Result from investments

The result from investments is the total of the direct investment returns, indirect investment returns and asset management costs less the necessary investment result on the basis of a one-year interest rate. In 2018, the one-year interest rate was -0.260% (2017: -0.217%). These components are listed separately in the following table.

Stichting Pensioenfonds Essity

Result from investments, amounts in million euros		
	2018	2017
Direct investment returns	8,085	8,809
Indirect investment returns	-14,865	15,591
Asset management costs	-0,769	-1,574
Req. investment result for fund's risk	1,054	0,884
Req. investment result for members' risk	1,297	-1,492
Total	-5,198	22,218
Total invested assets	435,406	424,482

Notes to table (see also Section 7 Asset management):

- The indirect investment returns are on balance lower due to a decrease in the real interest rate (higher value of the fixed-income portfolio and interest rate swaps) that is amply negated by the negative return on the return portfolio.
- The required interest addition for fund's risk is 'negative' due to the negative short-term interest rate (-0.260%). However, a substantial interest addition for members' risk is required.
- Information about the asset management costs is enclosed in **Section 6 Costs**.

Result from indexation

No indexation was granted on 1 January 2018.

Result from costs

These are the costs incurred for the administration and operations other than the asset management costs. The 'result from costs' was always negative in previous years. This was always compensated by the result from contributions. However, as pursuant to the Pensions Act the contribution must include a component that covers all operating costs the result from costs is, by definition, 0. However, the fund has adopted a cost surcharge equal to 2.5% of the value of new pension entitlements that is financed from the pension contribution. This input amounts to 323 thousand euros. The actual costs amount to 1,101 thousand euros. The detailed pension management costs are presented and explained in the **Annual Accounts, Note 22** and **Section 6 Costs**.

Result from probability systems

This includes mortality, incapacity and actuarial result from movements. The result from mortality was positive, from incapacity positive and from other movements slightly negative.

Result from interest rate structure

The obligations increased due to a decrease in the interest rate.

Changes in the accounting principles

The positive result of 4.357 million euros from changes in the principles is the outcome of the application of the Royal Dutch Actuarial Association's new 2018 mortality table at year-end 2018. The *Pensioenreglement 2015* (pension regulations 2015) with a retirement age of 68 entered into effect for 2018. As there were no other changes, the result from the scheme is zero.

The Dutch live increasingly longer, largely due to improved medication, possibly in combination with a healthy lifestyle. The increased longevity of the pension fund's members increases its obligations. The pension benefits of longer-living members who have already accrued their entitlements are actually financed from the asset buffers, which imposes further pressure on the funding ratios and limits the scope for indexation.

In 2018, the chance of survival was adjusted to take account of the greater than expected impact of influenza mortality (in part because the group of senior citizens who are vulnerable to influenza is continually increasing). This adjustment resulted in a 1.0% reduction of the provision at the end of September 2018 (and the following months).

Stichting Pensioenfonds Essity

Increase in obligations due to increased longevity

	million		Explanation
	%	euros	
2006	0,00%		
2007	0,00%		
2008	0,00%		
2009	4,00%	6,297	CBS figures
2010	2,60%	4,636	Act. Assn 2010-'60
2011	0,00%	0	
2012	1,80%	4,799	Act. Assn 2012-'62 and new mortality-expe
2013	0,00%	-	
2014	0,43%	1,103	Act. Assn 2014 and new mortality-experier
2015	0,00%		
2016	0,31%	1,267	Act. Assn 2016
2017	-0,80%	3,153-	New fund-specific mortality-experience data study
2018	-1,00%	4,357-	Act. Assn 2018 with influenza adjustment
Total	7,34%	10,592	

Result from movements in technical provisions and other

This relates to movements in connection with the contribution transitional scheme and additions to other provisions arising from the transitional scheme. In 2018, the result was slightly positive.

12.5 Notes to financial position

The actuary has determined the funding positions in accordance with the DNB Financial Assessment Framework (FTK) and expressed the positions in terms of percentages of the obligations (Provision for Pension Liabilities, PPL; strategic investment mix):

Stichting Pensioenfonds Essity

Financial position in accordance with FTK, in 1,000 euros

	2018	% P P L	2017	% P P L
UFR derivative interest rate at year-end	1,43%		1,56%	
Obligations for fund's risk	433.683		401.453	
Obligations for member's risk	33.084		33.645	
Obligations for funding ratio	466.767	100 %	435.098	100 %
minimum regulatory own funds	18.342	3,9%	17.095	3,9%
Extra buffer, regulatory own funds (strategic investment mix)	63.985	13,7%	59.097	13,6%
Total regulatory buffer (100%)	82.327	17,6%	76.192	17,5%
Minimum regulatory funds	485.109	103,9%	452.193	103,9%
Regulatory own funds				
(P P L + regulatory buffer, strategic)	549.094	117,6%	511.290	117,5%
Available funds and monthly funding ratio	468.490	100,4 %	458.127	105,3 %
Regulatory own funds reserve	-80.604	-17,3%	-53.163	-12,2%
Own funds and current funding ratio for fund's risk	1.723	0,4%	22.981	5,7%

*Contribution deposit is not taken into account in calculation of the funding ratio

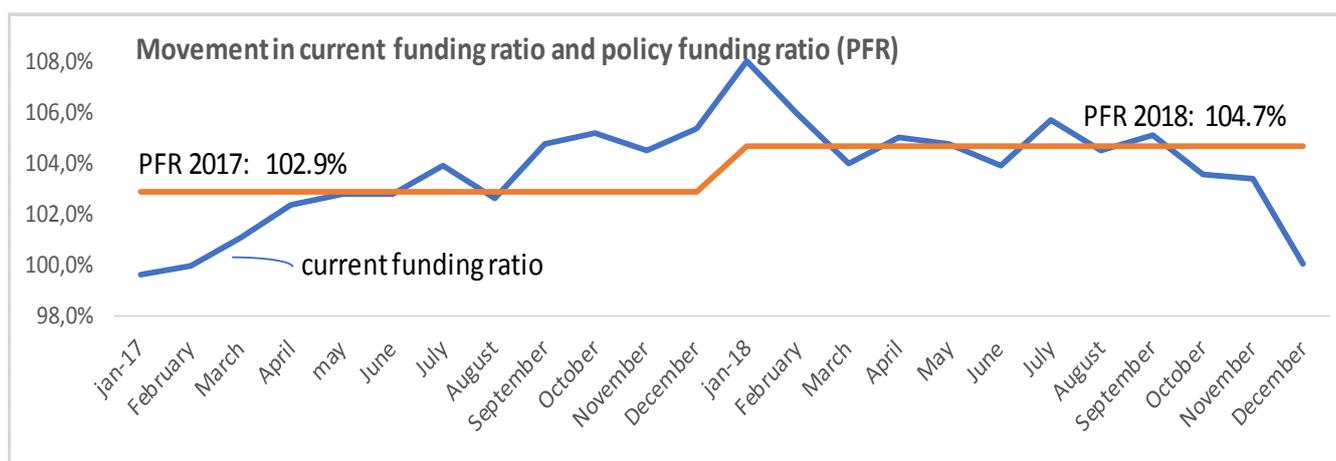
Own funds decreased from positive 23.0 million euros to positive 1.7 million euros in 2018, primarily due to the low investment results and the increase in obligations.

Available funds (468.490 million euros) were lower than the minimum regulatory funds (485.109 million euros) and lower than the total required buffer (549.094 million euros). However, the funds for the **policy funding ratio** are higher than the minimum regulatory funds. Consequently, the fund has a reserves shortfall but no longer has a funding shortfall.

During the each year in which Stichting Pensioenfonds Essity has a reserves shortfall the pension fund is required to submit a recovery plan, prepared in accordance with the prescribed methodology, to the supervisory authority before 1 April of each year.

12.6 Expectations

The fund expects flattening global growth and a longer than forecast period of low interest rates. The probability of indexation remains low for the time being.



13. Post balance sheet events

Indexation on 1 January 2019

In its meeting on 14 February 2019, the Board reached a decision on indexation on 1 January 2019. The **policy funding**

ratio (for fund's risk) was 104.7%, below the 110% floor for indexation. It has been decided not to grant indexation on 1 January 2019.

14. Statements

14.1 Accountability Body statement

To the Board of Stichting Pensioenfondss Essity:

Assignment: The Accountability Body (AB) was requested, within the context of the pension fund government regulations, to give an opinion on the policy pursued and implemented in 2018.

Method: the AB concentrates on issues including the following:

1. the AB assesses whether the policy pursued by the Board is in conformity with the Pensions Act, the pension fund's objectives as formulated in its Articles of Association, the agreements with the employers and the pension regulations;
2. the AB assesses whether the implementation is in line with the formulated policy;
3. the AB assesses whether measures are taken for the further optimisation of the policy and the implementation, whereby the AB submits advice to the Board on the basis of its observations.

The AB has reached the agreements with the Board and Management required to perform its duties. These include receiving the minutes of meetings of the Board, attending two or more meetings of the Board, holding formal and informal consultations with Management and/or the Board, following up the elements for which the AB is entitled to give advice and receiving formal account from the Board. More information about the AB's method is available in the AB regulations. The AB holds annual consultations with the Review Committee (RC). The AB has the power to give an opinion on the actions of the Board on the basis of the RC's findings.

Opinion:

The current agreements with the pension fund enable the AB to give an opinion and advice on the policy and implementation. The availability of the draft Annual Report 2018 and the draft report of the RC provided the AB a broad basis for its assessment.

The Board and Management made use of these reports when it gave account for the policy pursued and implemented during the meeting with the AB on 13 May 2019. The AB conducted in-depth discussions with the Board on a range of issues including:

- the developments in the fund's funding ratio,
- the contribution funding ratio,
- the interest rate and IT risk,
- the relationship with the sponsor,
- the quality of the outsourcing partners,
- the cost developments,
- the risk management (reserves risk and continuity risk (Board),
- the staffing of the Investment Committee,
- the follow-up on the 2018 recommendations,
- the follow-up on the BlackRock audit,
- the promotion of the ESG policy (in part via BlackRock),

- the tuning of the DC scheme, and
- the spearheads for 2019.

The fund gave clear information about and an explanation of the above issues and the AB notes that the Board and Management have a clear vision of and are in control of the relevant issues.

The AB is of the opinion that the Board and Management were in control with respect to the pension fund's policy and the implementation in 2018.

The AB has a favourable opinion of the provision of oral and written information and the cooperation with the Board. The AB has taken cognisance of the favourable report from the RC and has been informed that the social partner (employer and trade unions) have expressed their confidence in the fund.

Future: the AB has taken note that meetings between the social partners on reaching new pension agreements began in 2019. The AB is an advocate of the retention of the scheme's current accrual capacity and hopes that the social partners will arrive at a joint solution. The AB and Board both observe that the Board and the pension fund are confronted with the increasing complexity of and requirements on their activities. The AB notes that the fund anticipates these at a very early stage and is confident that it will continue to do so.

The AB has drawn up a report of the Board's account for the policy pursued and the implementation. The AB has also submitted recommendations that the Board recognises as points for action:

- Continue to conduct optimum communication of the option of further investments after retirement;
- Continue to invest in training and continuity;
- Continue to conduct a proactive approach to policy and implementation.

Review Committee (RC): the AB has consulted with the VC and has examined its report. The AB thanks the RC for its work and its recommendations.

General: the AB thanks the Board and Management for their work and wishes them every success in the performance of their duties in 2019.

Zeist, 18 May 2019,

Peter Kuit, Chair, Wilbert Janssen, Secretary, Hans van Dun, Marjolein Ennema, and Ruben Vlek, Prospective Member

The Board's response: the Board thanks the AB for its work, opinion and recommendations. The Board will address the recommendations.

Zeist, June 2019, Board and Management of Stichting Pensioenfondss Essity

14.3 Report from the Review Committee (source: VCHolland)

1. Introduction

The Board of Stichting Pensioenfonds Essity (hereinafter referred to as 'the Fund') requested VCHolland and, consequently, the members of the Review Committee (RC) to conduct a review within the context of a new three-year review cycle and requested the RC to conduct the review in the first half of 2019. This review assessed the period until the beginning of 2019, as based on the information available to the RC relating to the 2018 financial year. The RC has the statutory duty to supervise the Board's formulation and pursuit of policy, as well as the general affairs of the Fund. The RC is at least entrusted with the supervision of adequate risk management and the Board's balanced weighing of interests. The RC gives account for the performance of its duties to the Accountability Body (AB) and the employer in the Annual Report. The internal supervision is conducted in a manner that makes a contribution to the effective and efficient functioning of the Fund and its controlled and ethical operations. VCHolland's report explicitly addresses the statutory and other standards governing the performance of internal supervision.

2. Opinion/findings

Summary of opinion:

The RC has been able to determine that the Fund's overall risk management and balanced weighing of interests is adequate. The Board acts in an effective and efficient manner and the Fund conducts controlled and ethical operations. The Fund followed a consistent course of action in 2018. The RC has a favourable opinion of the management of the Fund. The Board is, in general, in control of the outsourced activities.

More specifically:

- The Fund has followed-up earlier recommendations in an adequate manner.
- The Fund closely monitors developments in legislation and regulations and appropriately anticipates the potential consequences for the Fund. The Fund is of the opinion that the reserves shortfall at the end of 2018 can be made up within the specified statutory term. The Fund does not, in general, doubt the sustainability of the continuity of the Fund. The Fund gives content to its policy on this basis.
- The Fund has implemented an adequate governance structure. The Fund's investment committee and director-secretary fulfil an important advisory and monitoring role. The relationship with the AB is good. The AB has submitted a recommendation relating to the relationship with ABN AMRO as the administrator of the defined contribution scheme.

- The Fund has an adequate suitability level. A suitability and training plan is in place. The time available is adequate. A continuing point for attention is the need, in view of the increasing claim on time, to improve the effectiveness of the Board meetings.
- The Fund's investment process is of a good level. Continual feedback to the Fund's investment criteria takes place. The reporting structure is adequate for good opinion forming. The Fund devoted specific attention to the ESG policy during the year under review and has given the policy content. The Fund is in control of the outsourced asset management activities.
- The Fund is in general in compliance with the general risk management principles. A structured approach is adopted. Risk management is an element of the governance cycle. The GDPR legislation has been implemented in full. The Fund has made significant progress in the control of ICT risks. This is also the case with the implementation of IORP II. The RC repeats its earlier recommendation for a further study of the consequences of the relatively low contribution funding ratio.
- The Fund conducts its communication in an adequate manner. The Fund makes ample use of the available means of communication. The communication plan was updated in 2018. The AB is appropriately involved in the Fund's communication. The RC recommends that compliance with the statutory provisions of the *Wet verbeterde Premieregeling* (Premium Schemes (Improvements) Act) continues to be tested, in particular with respect to compliance with the duty of due care.

13 May 2019

The Review Committee

Jacques Nieuwenhuizen

Jan Peter Vrieleman

John Ruben

The Board's response

The Board thanks the RC for its work, opinion and recommendations. The Board will carefully evaluate and address the recommendations in the context of its mission/vision and strategy, Zeist, 14 May 2019.

15. Appropriation of result

During its meeting on 4 June 2019, the Board of Stichting Pensioenfonds Essity decided to appropriate the result for 2018 as follows:

Stichting Pensioenfonds Essity	
Appropriation of result for 2018, amounts in 1.000 euros	
Total result	-21.077
- To General reserve	-21.306
- To Contribution deposit	229

Zeist, 4 June 2019

Members of the Board and Management of Stichting Pensioenfonds Essity on 4 June 2019:

E. Ligthart	Chair
C.N.H. Quint	Secretary
K. Boijenga	Member of the Board
E. Luiken	Member of the Board
R. van Sintemaartensdijk	Member of the Board
M. van Gool	Director

Annual Accounts 2018

Stichting Pensioenfonds Essity

16. Annual Accounts 2018

16.1 Balance sheet at 31 December 2018

Assets

Balance sheet at 31 December (after appropriation of result), amounts in 1,000 euros

Assets	Note	2018	2017
Investments for pension fund's risk	1	445.945	444.990
- Real estate		70.126	43.356
- Variable-yield securities		131.689	165.456
- Fixed-income securities		235.089	227.885
- Derivatives		9.041	8.293
Investments for members' risk	2	33.084	33.645
Receivables and accrued income	3	2.630	1.473
Cash at bank and in hand	4	7.618	7.163
Total assets		489.277	487.271

Liabilities

Stichting Pensioenfondss Essity

Balance sheet at 31 December (after appropriation of result), amounts in 1,000 euros

Liabilities	Note	2018	2017
Reserves	5	6.190	27.267
- General reserve		1.723	23.029
- Appropriated reserve, Contribution deposit		4.467	4.238
Technical provisions for pension fund's risk	6	433.683	401.453
Provision for pension obligations for members' risk	7	33.084	33.645
Other provision for VPL	8	0	9.251
Short-term debts	9	16.303	15.562
Deferred liabilities	10	17	93
Total liabilities		489.277	487.271

16.2 Statement of income and expenditure

Stichting Pensioenfonds Essity

Statement of income and expenditure, amounts in 1,000 euros

	Note	2018	2017
Investment returns for pension fund's risk	11	-6.253	21.334
- Direct investment returns		7.572	8.350
- Indirect investment returns		-13.056	14.558
- Costs of asset management	12	-769	-1.574
Investment returns for members' risk	13	-1.296	1.492
Contributions	14	15.285	13.727
Contributions for members' risk	15	2.161	1.875
Balance of transfers of rights	16	1.232	2
Withdrawals from investments for members' risk	17	-1.426	-890
Pension benefits	18	-7.324	-6.798
Movement in provision for pension obligations for pension fund's risk	19	-32.230	3.681
Movement in provision for pension obligations for members' risk	20	561	-2.477
Reinsurance	21	-702	-167
Costs of pension management (excl. VAT)	22	-959	-797
Other income and expenditure	23	10.016	2
Subtotal, income and expenditure		-20.935	30.984
Tax (VAT on costs of pension management)	22	-142	-127
Result	24	-21.077	30.857
Appropriation of result		-21.077	30.857
- General reserve		-21.306	30.506
- Appropriated reserve, Contribution deposit		229	351

16.3 Cash flow statement

Stichting Pensioenfonds Essity

Cash flow statement, amounts in 1,000 euros

	2018	2017 1)
Pension activities	7.798	6.001
Receipts	17.199	14.569
- Contributions from employers and employees	15.557	14.004
- Payments from reinsurance	277	455
- Pension obligations transferred from other funds	1.344	108
- Other	21	2
Expenditure	-9.401	-8.568
- Paid pension benefits and commutations	-5.301	-4.931
- Wage tax	-1.616	-1.535
- National insurance contributions and other deductions	-368	-326
- Pension obligations transferred to other funds	-188	-13
- Reinsurance premiums	-879	-879
- Pension administration and administration costs	-1.046	-884
- Other	-3	0
Investment activities	-7.343	-7.763
Receipts	130.183	45.175
- Direct investment returns	7.533	8.330
- Sale and redemption of investments	122.650	36.845
Expenditure	-137.526	-52.938
- Purchase of investments	-136.490	-51.700
- Asset management and other costs	-1.036	-1.238
Movement in cash	455	-1.762
At 1 January	7.163	8.925
At 31 December	7.618	7.163

1) The calculation method has been adjusted: the figures for 2017 have been adjusted for comparability

16.4 Accounting policies

General

The pension fund compiled this Annual Report in accordance with the Annual Reporting Guidelines. The cash flow was compiled using the direct method. The fund is listed in the Trade Register of the Chamber of Commerce and Industry under number 51702266.

Measurement

General

Assets and liabilities are measured at cost price, unless another accounting policy is stated. The fund tests the measurement and actuarial measurement principles at regular intervals.

Change in accounting estimate on basis of new Projection Table AG 2018:

The Royal Dutch Actuarial Association published the new Projection Table AG2018 Forecast Table in September 2018. The fund decided to apply this table from September 2018. This resulted in a 4.4-million euro decrease in the obligations at September 2018.

Change in accounting estimate on basis of new mortality-experience data 2017:

In 2017, the fund had a study carried out of the fund-specific mortality-experience data that it applies. This study resulted in a proposal for new mortality-experience data. The fund decided to adopt this proposed mortality-experience data and apply the data from year-end 2017. This resulted in a 3.2 million euro decrease in the obligations at year-end 2017. The 2017 mortality-experience data was also applied in 2018.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the end of the year. Transactions in foreign exchanges during the reporting period are recognised in the annual accounts at the rate of exchange on the date of settlement. Any exchange rate differences resulting from translation at balance sheet are, taking account of any hedging transactions, where relevant, recognised in the statement of income and expenditure.

Units in investment institutions

Listed investment institutions are measured at fair value, namely at stock market value. Non-listed investment institutions are measured at fair value, namely the net asset value based on the market value of the underlying investment units.

Variable-yield securities

Variable-yield securities are measured at the stock market value at the end of the financial year.

Fixed-income securities

All fixed-income investments, bonds and loans against promissory notes are measured at fair value. The fair value of bonds is the stock market value at the end of the financial year and of loans against promissory notes the calculated fair value. For this calculation, all future cash flows are converted into cash at the prevailing market rate of interest.

Derivatives and other investments

Derivatives and other investments, including forward exchange transactions, swaps and money market instruments, are measured at fair value at the end of the financial year.

Swaps are measured on the basis of information perceivable in the market.

Forward exchange transactions and money market instruments are measured on the basis of the net asset value, taking account of the pro rata share in the underlying products. Recognition takes place on the basis of the last known quarterly report and, where relevant, the applicable subsequent measurements received from the external asset manager. Movements in values are recognised directly in the statement of income and expenditure, without the formation of a revaluation reserve.

Deposits

Deposits are measured at market value.

Receivables

On first recognition, receivables are measured at the fair value of the counter-performance and after first recognition at the amortised cost price. A provision is made for the receivables on the basis of expected irrecoverability.

Cash at bank and in hand

Cash at bank and in hand is measured at nominal value. Cash at bank and in hand includes cash and bank account credit balances due on demand, short term deposits and extremely liquid investments that can immediately be converted into cash. Current account debts at banks are recognised under amounts owed to credit institutions, short-term debts.

Investments for members' risk

Listed investment institutions are measured at current value, namely at stock market value. Non-listed funds are measured at current value, namely the net asset value.

Contribution deposit

As from 1 January 2015, the difference between the actual contribution and the cost-effective contribution (on the basis of the 10-year cushioned interest rate) is added to the 'contribution deposit appropriate reserve'. As from 1 January 2015, a return is added to this deposit. The deposit is filled, inclusive of the return, to a maximum of 4 million euros. The social partners have agreed that the contribution surplus resulting from the age 68 scheme and the VPL contribution 2020 will also be credited to this deposit. Positive contribution margins (exclusive of the aforementioned) will thereafter accrue to the general reserve of the fund. Negative contribution margins are made up from the deposit until the deposit is exhausted. The contribution deposit is not included in the funding ratio of the fund.

The maximum balance of 4 million euros was reached in 2017, after which transfers of the contribution margin were terminated. Movements in the contribution deposit are now due solely to interest credited or debited to the deposit and the aforementioned additional payments.

Regulatory own funds

Endeavours are made to accommodate movements in the financial markets by maintaining a level of own funds determined with the following formula and on the basis of the fund's disposal over own funds of an amount equal to the regulatory own funds, in accordance with the DNB's standard model inclusive of the associated square root formula. The various risk components in the square root formula are calculated as follows:

S1: Interest rate risk

The effect of the most unfavourable movement in the interest rate/interest rate structure in accordance with the increase and decline factors prescribed by law.

S2: Share and real estate risk

The value of S2 is made up of the effect of a decrease in the value of investments in listed shares in developed markets and indirect active real estate (30%), shares in emerging markets (40%), non-listed shares (40%), and in direct real estate (15%). The correlation between the risk categories included in the share and real estate risk is 0.75%. This indicates that the risks do not materialise independently of each other, but are rather risks that have a strong positive relationship to each other.

S3: Foreign exchange risk

The effect of a decrease in the value of currency in developed markets, with a 20% buffer, and of currency in emerging markets, with a 35% buffer.

S4: Commodities risk

The effect of a decrease in the value of investments in commodities of 35%.

S5: Credit risk

The effect of a decrease in the credit spread of 40%. There is also a 50% correlation between the variable-yield securities risk and credit risk.

S6: Underwriting risk

The underwriting risk is calculated from the process risk, the mortality trend uncertainty (MTU) and the negative stochastic variance (NSV) using the following formula:

$$S6 = \text{process risk} + \sqrt{(\text{MTU}^2 + \text{NSV}^2)}$$

S8: Concentration risk

This is the risk of an insufficient spread of assets and liabilities. The calculation is in line with the Solvency II guidelines for insurance companies, although as from 2016 these no longer need to be taken into account (zero).

S10: Active management risk

An active management risk arises when asset managers conduct active management of all or part of the investment portfolio. These are calculated when the tracking error is more than 1%. The buffer is increased in the event of leverage (with real estate).

Pension obligations for fund's risk

The calculation of the cash value of accrued future entitlements at 31 December of the financial year is based on the following actuarial principles:

Mortality and interest

AG Projection table for 2018 (effective from 2019) with application of the fund-specific mortality-experience data (SCA 2017); interest: De Nederlandsche Bank Interest rate structure, 31 December 2018.

Marital status

The partner's pension provision is determined on the basis of the indefinite partner system. The following partner frequencies are used (with linear interpolation between the ages in the table):

Age	Men	Women
younger than 18	0,000	0,000
18	0,011	0,053
25	0,530	0,795
30	0,742	0,901
35	0,954	0,901
50	0,954	0,901
65	0,954	0,742
68	0,954	0,742

Convertible partner's pension: the partner frequency at retirement age is set to 100%.

Age difference and determination of age

The age difference between husband and wife is set at three years (husband older than wife). The age for the calculation of the provision is determined to an accuracy of one month.

Benefits

It is assumed that pension benefits are or will be paid continuously. In practice, pension benefits are paid retroactively in monthly instalments. It is assumed that the orphan's pension benefit is paid until the age of 27.

Costs

The cost provision in 2018 is unchanged from 2017 (2.5%).

Methods for calculation of reserves

The reserve for prospective pensions is formed on the assumption that all pension entitlements attributed to past service (inclusive of extra years arising from value transfers, voluntarily purchased old-age pension and guarantee years, where relevant) have been purchased on balance sheet date.

The provision for pension obligations is set at the cash value of the accrued pension entitlements at balance sheet date plus the cash value of the payable pensions.

The cash value of provisions for the obligations for the invalidity pensions (WIA/WAO shortfall and WIA/WAO top-up benefits) of partially or fully incapacitated members (members receiving WIA/WAO benefits) and the future accrual of pension benefits arising from partial or full incapacity is determined on the basis of the assumption that no rehabilitation takes place. Accrual from 2015 falls under the provisions of the *Pensioenreglement 2015* (pension regulations 2015).

Provisions for members' risk

This provision is accrued from (1) the contributions paid by the employees to the Defined Contribution Scheme equivalent to an average of 2.8% of the pensionable salary plus (2) the return on the investments and (3) less the pensions purchased. The investments for this scheme are made at the expense and risk of the members. The member can use the investment capital at pension commencement date to purchase a pension from the pension fund or from an external

insurance company, or from an external party offering a continued investment option.

Other provision VPL

In 2018, the Social Partners reached a VPL agreement in principle whereby the conditional VPL entitlements are converted into unconditional pension entitlements less a deduction to be calculated at the time. This deduction is determined on the basis of the amount of the VPL deposit at year-end 2018 (inclusive of additions pursuant to the Agreement in Principle) and the purchase factors as laid down in the Agreement in Principle. As this calculation will be made at year-end 2018, it has been decided to recognise the conversion into obligations and VPL deposit at year-end 2018.

History: The fund carries out the VPL transitional scheme on behalf of the CAO parties and in accordance with the provisions of Article 49 of the *Overgangsbepalingen VPL* (VPL transitional provisions) of the *Pensioenreglement 2015* (pension regulations 2015).

This transitional scheme is applicable to employees who were in service on 31 March 1999, were uninterrupted members of the pension fund from this date to 31 December 2005 inclusive, and either uninterruptedly continued their membership from 31 December 2005 to 31 December 2020 inclusive or until they reached their retirement age or early retirement age.

The objective of the scheme is to grant a supplementary pension on retirement, whereby use is made of the tax scope relative to the entitlements accrued with the pension fund that existed at 31 December 2005.

The right to this award exists only when the Board has reached its annual decision to grant the entitlement to persons who can make use of the scheme in the next financial year. The contributions received for the transitional scheme are strictly separated from the contributions for the pension scheme. The Other provision for VPL increases by the VPL contributions paid by the employers during the financial year and the investment returns (from 1 January 2015) less the operating and administration costs.

The supplementary pension of employees who make use of the scheme is drawn on the Other provision for VPL.

In 2013, the Board decided to classify the obligations arising from the VPL transitional scheme as 'Other provision for VPL'. In 2014, the Board decided to withdraw the 'transitional scheme deposit' from the general reserve and to classify this deposit as the 'appropriated reserve (VPL transitional scheme deposit)'. As from September 2014, the appropriated reserve 'VPL transitional scheme deposit' is not included in the assets of the fund. In 2015, the Board decided to make a change to the system whereby the 'VPL transitional scheme deposit' was withdrawn from the reserves and merged with the 'Other provision for VPL'. The Other provision for VPL is not taken into account in the funding ratio of the fund. There were **no** changes in 2016 and 2017.

Determination of result

General

Income and expenditure are recognised in the year to which they relate.

Direct investment returns

Direct investment returns on fixed interest securities are understood as the interest revenue less the costs and on variable-yield securities as the gross dividend before deduction of dividend tax less the costs. Interest on other assets and liabilities is recognised as nominal amounts.

Indirect investment revenues

The following results are recognised in this item:

- differences in prices realised on sales of shares and bonds;
- differences in prices realised on the repayment/redemption of loans against promissory notes and bonds;
- penalties on the advanced repayment of loans against promissory notes;
- currency differences relating to variable-yield securities, fixed-income securities, deposits, forward exchange transaction and bank accounts in foreign currencies;
- unrealised price and currency differences relating to shares, bonds and loans against promissory notes.

Asset management costs

These are the costs of the asset management operations specified in the invoices submitted to the fund.

Reinsurance

The fund has reinsured the mortality and incapacity risks with Elips Life since 2016.

16.5 Notes, amounts in 1,000 euros

1 Investments return for pension fund's risk

Stichting Pensioenfonds Pensura

Investments for pension fund's risk

category	At year-end 2017	Purchases/ payments	Sales/ drawing redemption	Realised price differences	Un-realised price diff.	Current interest	At year-end 2018
Real estate:	43.356	24.854	0	-57	1.973	0	70.126
- Shares in real estate	43.356	14.148	0	-57	1.183	0	58.630
- Infrastructure	0	10.706	0	0	790	0	11.496
Variable-yield securities:	165.456	30.926	-51.447	33.827	-47.073	0	131.689
- Equities funds	165.456	30.926	-51.447	33.827	-47.073	0	131.689
Fixed-income securities:	219.448	78.384	-70.165	1.269	-2.284	0	226.263
- Fixed-income investment funds	114.686	31.340	-34.357	425	-3.287	0	108.807
- Credits	74.213	8.573	-13.337	844	1.568	-103	71.758
- Deposits*	1.000	22.471	-22.471	0	0		1.000
- Repurchases	0	0	0	0	0		0
- Mortgage loans	37.986	16.000	0	0	-565	103	53.524
- Short-term receivables from banks	-8.437	0	0	0	0	0	-8.826
Derivatives:	1.776	2.715	0	-2.715	1.969	17	3.762
- Swaps	1.253	0	0	0	2.488	17	3.758
- Forward exchange contracts	523	2.715	0	-2.715	-519	0	4
Total investments for pension fund's risk:	430.036	136.879	-121.612	32.324	-45.415	17	431.840
of which presented under liabilities:							
- Fixed-income securities	8.437						8.826
- Derivatives	6.517						5.279
Investments on the assets side of the bala	444.990						445.945

*Deposits include on sight deposits of 4,867 euros that are at the disposal of the fund and are not subject to movements in value

The deposits are temporarily held cash at bank and in hand within the asset manager's mandate.

The deposits all have a time to maturity of less than one year and have a rapid turnover.

Methodology for determination of market value:

<i>Listed market prices:</i>	Direct market valuation, listing on an active market;
<i>Net cash value:</i>	Derived market valuation, no direct listing of other perceivable data on the market or a price based on a transaction on a non-active market with non-significant price adjustments (based on assumptions and estimates);
<i>Other method:</i>	Models and techniques, market valuation not based on market but on assumptions and estimates that have a significant influence on the price.

Stichting Pensioenfonds Essity

Methodology for determination of market value

	Listed market prices	Net cash value	Other method	At year-end 2018
Real estate:	0	0	70.126	70.126
- Indirect real estate investments	0	0	58.630	58.630
- Infrastructure	0	0	11.496	11.496
Variable-yield securities:	0	0	131.689	131.689
Units in investment funds	0	0	131.689	131.689
Fixed-income securities:	62.932	1.000	162.331	226.263
Fixed-income investment funds	0	0	108.807	108.807
Bonds	71.758	0	0	71.758
Mortgage loans	0	0	53.524	53.524
Deposits	0	1.000	0	1.000
Cash collateral (CSA contracts)	-8.826	0	0	-8.826
Derivatives:	0	3.762	0	3.762
Currency derivatives	0	112	0	112
Interest derivatives	0	3.650	0	3.650
Total invested assets	62.932	4.762	364.146	431.840
Reconciliation of above with balance sheet				
Total investments for pension fund's risk				431.840
Bank deposits				6.755
Receivables by reason of investments				-463
Sales of investments				1.163
Purchases of investments				-1.235
Total invested assets, balance sheet				438.060

2 Investments for members' risk

The full investments are placed with ABN AMRO, whereby the members have invested in various investment funds (for their own risk).

Stichting Pensioenfonds Essity Investments for members' risk

category	At year-end 2017	Reallo- cation*	Purchases/ payments	Sales/ drawing redemption	Realised price differences	Un- realised price diff.	At year-end 2018
Indirect investment in real estate	2.854	27	221	-191	118	-134	2.895
Units in investment funds	17.437	-63	1.484	-1.748	398	-1.573	15.935
Fixed-income securities	8.618	33	1.430	-861	97	-109	9.208
Other (liquid funds)	4.736	3	1.539	-1.239	0	7	5.046
Management fee adjustment				100	-100		
Total investments for members' risk:	33.645	0	4.674	-3.939	513	-1.809	33.084

* this relates to the adjustment of the classification into category of the mix at 31 December 2017 to the mix at 1 January 2018

3 Receivables and accrued income

Receivables and accrued income (time to maturity of less than one year)

	2018	2017
Current interest	-2	-3
Other receivables	2.632	1.476
- Dividend tax	59	21
- Sales of investments	1.163	485
- Other receivables by reason of investments	0	0
- Reinsurer	291	186
- Reinsurance profit-sharing	-10	129
- C/A Companies + expat contributions	1.129	655
- Other receivables	0	0
Accrued income	0	0
- Prepaid outgoing value transfers and costs	0	0
Total receivables and accrued income	2.630	1.473

4 Cash at bank and in hand

Stichting Pensioenfonds Essity Cash at bank and in hand

	2018	2017
- Bank deposits	6.755	5.866
- ING Bank (at disposal of fund)	863	1.297
Total cash at bank and in hand	7.618	7.163

5 Reserves

Stichting Pensioenfonds Essity Reserves

	2018	2017
General reserve		
At 1 January	23.029	-7.477
Movement in designated balance	-21.306	30.506
At 31 December	1.723	23.029
Appropriated reserve, contribution deposit		
- at 1 January	4.238	3.887
- transfer from contribution	289	138
- indexation	0	0
- return*	-60	213
At 31 December	4.467	4.238
Total reserves at 31 December	6.190	27.267

* Return has been added as from 1 January 2016

Stichting Pensioenfonds Essity
Assets, obligations and funding ratios

	2018	2017
Assets:		
- Own funds available	1.723	23.029
- Minimum regulatory own funds	18.342	17.094
- Extra buffer for regulatory own funds (based on strat. invst m	63.985	59.098
- Total regulatory own funds based on strat. prevailing FTK	82.327	76.192
Assets for pension fund's risk 1)	439.873	428.720
Assets for members' risk (DC)	33.084	33.645
Subtotal assets	472.957	462.365
less for calculation of Contribution deposit funding ratio	-4.467	-4.238
Assets for calculation of funding ratio	468.490	458.127
Pension obligation for pension fund's risk	433.683	401.453
Pension obligation for members' risk	33.084	33.645
Pension obligations for funding ratio calculation	466.767	435.098
Funding ratios - total funds (DB & DC)		
- Policy funding ratio	104,7%	102,9%
- Current funding ratio	100,4%	105,3%
- Real funding ratio	85,4%	83,8%
- Minimum required funding ratio	103,9%	103,9%
- Strategic required funding ratio	117,6%	117,5%
Funding ratios - fund's risk (DB)		
- Policy funding ratio	105,1%	103,2%
- Current funding ratio	100,4%	105,7%
- Real funding ratio	84,5%	82,7%
- Minimum required funding ratio	104,2%	104,3%
- Strategic required funding ratio	119,0%	119,0%

The assets for the calculation of the funding ratio are defined as the balance sheet total of the assets less short-term debts, deferred liabilities, pension obligations for members' risk and less the Other provision for VPL and Contribution deposit. The current (monthly) funding ratio is the result of these assets divided by the total obligation for the risk of the pension fund and of the members

At 31 December 2018, the policy funding ratio was 104.7% (2017: 102.9%). The policy funding ratio is the rolling 12-monthly average of the monthly funding ratios: consequently, the policy funding ratio at year-end 2018 is the average of the monthly funding ratios for January to December 2018. The fund has a reserves shortfall because the policy funding ratio is lower than the regulatory own funds (117.6%). However, the fund no longer has a funding shortfall as the policy funding ratio of 104.7% is above the minimum regulatory own funds of 103.9%. The fund has submitted a recovery plan which reveals that the funding ratio will recover to a level above the regulatory own funds (without additional payments by the sponsors) within a ten-year period.

6 Technical provisions for pension fund's risk

Stichting Pensioenfonds Essity
Provision for pension obligations for pension fund's risk

	2018	2017
At 1 January	401.453	405.134
- Movement from statement of income and expenditure	32.230	-3.681
Total provisions at 31 December	433.683	401.453
consisting of (at 31 December):		
- Members	201.283	183.975
- Deferred beneficiaries	102.429	96.973
- Pension beneficiaries	129.971	120.505

7 Technical provisions for members' risk

Stichting Pensioenfonds Essity

Provision for pension obligations for members' risk

	2018	2017
At 1 January	33.645	31.168
- Payments for members	2.161	1.875
- Withdrawals for members	-1.426	-890
- Return	-1.296	1.492
Total provisions at 31 December	33.084	33.645

8 Other provision for VPL

Stichting Pensioenfonds Essity

Other provision for VPL

	2018	2017
At 1 January	9.251	8.173
- Addition of transitional scheme contribution	1.072	1.061
Addition of contribution for 2019	1.102	0
- Return	-126	458
- Withdrawal for purchase	-1.283	-441
- Withdrawal for settlement of costs	-19	0
- Withdrawal relating to termination of VPL	-9.997	0
Other provision for VPL at 31 December	0	9.251

9 Short-term debts

Stichting Pensioenfonds Essity

Short-term debts

	2018	2017
Obligations arising from collateral received*	8.826	8.437
Derivatives with negative market valuation	5.279	6.517
Interest derivatives with negative market valuation	463	0
Purchases of investments	1.235	0
C/A Companies + expat contributions	0	0
Reinsurer	66	0
De Nederlandsche Bank and AFM	34	0
Withholding tax due	149	130
Benefits (subsequent payment of lapsed PP)	15	0
Social security charges	33	28
Asset managers and investment administration	120	387
Study costs/Risk Management	0	0
Costs of implementation of age 68 scheme	19	0
Other costs	64	63
Total short-term debts	16.303	15.562

*Collateral received on interest derivatives is recognised on the liabilities side of the balance sheet, under Money market instruments and cash at bank and in hand. Consequently, the amount of 8.826 euros (2017: 8,437 euros) is not at the disposal of the fund.

10 Deferred liabilities

Stichting Pensioenfonds Essity

Deferred liabilities (time to maturity of less than one year)

	2018	2017
Value transfers received in advance	0	84
Withdrawals from savings capital received in advance	17	9
Total deferred liabilities	17	93

Off-balance sheet rights and obligations

- Stichting Pensioenfonds Essity has an overdraft facility with ING Bank NV with a limit of 425,000 euros. No guarantees or collateral have been furnished.
- The sponsors are under the obligation to make additional payments when the fund would otherwise be compelled to cut pension benefits.

11 Investment returns for pension fund's risk

Direct investment returns	7.572	8.350
- Real estate	1.607	1.236
- Variable-yield securities	826	1.430
- Fixed-income securities	3.882	4.475
- Derivatives	1.285	1.228
- Other	-28	-19
Indirect investment revenues	-13.182	15.017
<i>Realised:</i>	<i>32.232</i>	<i>6.794</i>
- Real estate	-57	0
- Variable-yield securities	33.827	0
- Fixed-income securities	1.269	3.435
- Derivatives	-2.715	3.390
- Other investments	-92	-31
<i>Unrealised:</i>	<i>-45.414</i>	<i>8.223</i>
- Real estate	1.973	3.486
- Variable-yield securities	-47.073	17.037
- Fixed-income securities	-2.284	-8.612
- Derivatives	1.969	-5.115
- Other	1	1.427
Investment returns accruing to the Other provision for VPL	126	-459
Asset management costs	-769	-1.574
Total investment returns for pension fund's risk	-6.253	21.334

12 Asset management costs

Stichting Pensioenfonds Essity

Costs of asset management in statement of income and expenditure

	2018	2017
Costs of asset management in statement of income and expenditure inclusive of costs of IC and VAT	-769	-1.574
- Management fee, variable-yield securities	-247	-807
- Management fee, fixed interest securities	-92	-495
- Management fee, other / rebates	-377	-210
- Management consultancy	-46	-55
- Other costs	-7	-7
<i>Reconciliation with total asset management costs:</i>		
Costs charged directly to the investment returns	-1.357	-418
Total asset management costs	-2.126	-1.992

13 Investment returns for members' risk

Stichting Pensioenfonds Essity

Investment returns for members' risk

	2018	2017
Direct investment returns	513	459
Indirect investment revenues	-1.809	1.033
Total investment returns for members' risk	-1.296	1.492

14 Contributions

Stichting Pensioenfonds Essity Contributions

	2018	2017
Contributions (exclusive of VPL contributions)	12.635	12.429
Single contributions	1.367	857
Purchase from VPL funds	1.283	441
Total contributions	15.285	13.727

15 Contributions for members' risk

Stichting Pensioenfonds Essity Contributions for members' risk

	2018	2017
Contribution payments to ABN Amro Pension Service*	2.161	1.875

An overview of the contributions is presented below. The determination of the contribution to be allocated to the financial year takes account of any contribution discounts granted and/or contribution surcharges. Discounts and/or surcharges were not an issue in both financial years.

Stichting Pensioenfonds Essity Overview of contributions

	2018	2017
The actual contribution is*	16.110	15.107
The cost-effective contribution is	19.963	19.885
The cushioned contribution is	15.821	14.278
<i>The cost-effective contribution consists of:</i>	<i>19.963</i>	<i>19.885</i>
- Contribution actuarially required	15.404	15.545
- Extra sum for maintenance of regulatory funds	2.696	2.706
- Extra sum for administration costs	918	755
- Death and incapacity for work risk premiums	945	879
- Contribution actuarially required for indexation	0	0
<i>The cushioned contribution consists of:</i>	<i>15.821</i>	<i>14.278</i>
- Contribution actuarially required	11.924	10.817
- Extra sum for maintenance of regulatory funds	2.034	1.827
- Extra sum for administration costs	918	755
- Death and incapacity for work risk premiums	945	879
- Contribution actuarially required for indexation	0	0
<i>The actual contribution consists of:</i>	<i>16.110</i>	<i>15.107</i>
- Contribution actuarially required	11.924	10.817
- Extra sum for maintenance of regulatory funds	2.034	1.827
- Extra sum for administration costs	918	755
- Death and incapacity for work risk premiums	945	879
- Contribution margin	289	829

* For 2017: regular basic scheme contribution 12,429, DC contribution 1,875 and DC capitals for purchase 803

* For 2018: regular basic scheme contribution 12,635, DC contribution 2,161 and DC capitals for purchase 1,31

16 Balance of transfers of rights

Stichting Pensioenfonds Essity Balance of transfer of rights

	2018	2017
Pension obligations transferred from other funds	1.420	15
Pension obligations transferred to other funds	-188	-13
Balance of incoming and outgoing value transfers	1.232	2

17 Withdrawal of investments for members' risk

Stichting Pensioenfonds Essity Withdrawal of investments for members' risk

	2018	2017
Withdrawals	-1.426	-890

18 Pension benefits

Stichting Pensioenfonds Essity Pension benefits

	2018	2017
Old-age pension	-5.945	-5.449
Invalidity pension	-160	-180
Widow's pension	-1.189	-1075
Orphans' pension	-26	-37
Early retirement pension	0	-13
Lump-sum benefits	-4	-44
Total pension benefits	-7.324	-6.798

19 Movement in provision for pension obligations for pension fund's risk

Interest addition based on 1-year interest rate	-1.054	-884
Pension benefits and administration costs	-7.504	-6.968
Change in market rate of interest*	19.673	-6.230
Increase in provision for future costs	323	334
Movement in value transfers	1.186	2
Changes in actuarial principles and/or methods	-4.357	-3.153
Indexation, active members	0	0
Indexation, early leavers	0	0
Indexation, pensioners	0	0
Result on mortality	130	-1.367
Result on incapacity	-84	470
Result on movements	9	3
Other movements in tech. prov. incl. VPL	-228	776
Provision at 31 December	433.683	401.453
Movement in obligations charged to the result	32.230	-3.681

In 2018, the social partners decided to terminate the VPL scheme on 1 January 2019, whereby the available VPL funds (including the VPL contribution 2019) will be allocated to the conversion of the conditional VPL entitlements into unconditional entitlements, which will result in the addition of approximately 10 million euros to the pension accrual for the provision for pension obligations for pension fund's risk.

20 Movement in provision for pension obligations for members' risk

Stichting Pensioenfonds Essity

Movement in provision for pension obligations for members' risk

	2018	2017
Provision at 1 January	33.645	31.168
- Return	-1.296	1.492
- Payments	2.161	1.875
- Outgoing value transfers	-44	-13
- Release due to deaths	-76	-54
- Release for regular purchases of pension entitlements	-1.305	-812
- Commutation	-1	-11
Provision at 31 December	33.084	33.645
Movement	561	-2.477

21 Reinsurance

Stichting Pensioenfonds Essity

Reinsurance

	2018	2017
Risk premium	-945	-879
Payments on death	142	93
Payments on waiver of premium (incapacity)	112	490
- Profit sharing	-11	129
Total reinsurance	-702	-167

22 Costs of pension management

Remuneration received by members of the Board: The member of the Board representing the pensioners received remuneration of 5,000 euros in 2017 and in 2018. The other members of the Board did not receive any remuneration. However, costs were incurred in the provision of courses, etc. **Personnel:** Mr M. van Gool served as the Director of Stichting Pensioenfonds Essity during the 2017 and 2018 financial years. **Remuneration of member of the Accounting Body:** the member of the Accountability Body representing the pensioners received remuneration of 3,000 euros in 2017 and in 2018.

Stichting Pensioenfonds Essity

Costs of pension management: pension administration, general costs and costs of control/supervision*

	2018	2017
- Pension administration	-335	-328
- General costs	-532	-383
- Board support	-39	-38
- Actuarial advice and annual documents	-120	-131
- Legal advice	-2	-3
- Communication, including pension planner	-16	-15
- Board	-7	-11
- Management (remuneration and pension)	-192	-200
- Board and Management operating costs	-54	-37
- Non-recurring pension administration costs	-116	-10
- Other costs (incl. on-charged to employer)	14	62
- Costs of control and supervision	-92	-86
- De Nederlandsche Bank	-32	-28
- AFM	-3	-3
- Accountability Body	-3	-3
- Accountant	-27	-25
- Certifying Actuary	-12	-11
- Visitation Committee	-10	-10
- Compliance	-4	-5
- Pensions Register levy	-1	-1
Total costs of pension management	-959	-797
VAT	-142	-127
Costs of pension management incl. VAT	-1.101	-924
Costs per active member:		
Pension administration costs	159	157
Control and supervision	44	41
VAT	67	61
Members (active members and pensioners)	2.112	2.092
as defined by Federation of the Dutch Pension Funds*		
Total costs of pension management in basis points	22	19
(% of average assets x 100)		
- Average assets in million euros	442	420

* All costs exclusive of AZL administration costs, 64% of which allocated to asset management

23 Other income and expenditure

Stichting Pensioenfonds Essity

Other income and expenditure

	2018	2017
- Withdrawn savings capital of deceased members w/out surviving rel	21	0
- Termination of VPL	9.997	0
- Sundry	-2	2
Total other income and expenditure	10.016	2

24 Actuarial analysis of the result

Stichting Pensioenfonds Essity

Actuarial analysis of the result

Result	2018	2017
Contribution	-1.157	-2.072
Indexation	0	0
Balance of investment revenues & movement in interest rate stru	-24.871	28.448
Costs	0	0
Benefits	-3	1
Death	87	1.628
Regular movements	-9	-3
Incapacity	185	35
Value transfers	45	0
Changes in actuarial principles and others	4.585	2.839
Other causes	61	-19
Result	-21.077	30.857

16.6 Risk Section

(amounts in 1,000 euros)

The risk management policy was explained in the risk section of the Board report.

The risk section is based on the look-through principle and the prevailing FTK in accordance with the calculation of the regulatory own funds in the Actuarial Report.

This risk section relates the individual risks associated with the regulatory own funds to the provision for fund's risk.

Solvency risk

The pension fund's major financial risk is the inability to fulfil the pension commitments. An important criterion for this is the own funds available.

Stichting Pensioenfonds Essity

Regulatory own funds pursuant to standard model

	2018		2017	
	Strategic euros	%	Strategic euros	%
Interest rate risk (S1)	15.367	2,0%	15.564	2,2%
Variable-yield securities risk (S2)	57.969	11,8%	52.603	11,8%
Foreign exchange risk (S3)	24.272	1,7%	20.677	1,4%
Commodities risk (S4)	0	0,0%	0	0,0%
Credit risk (S5)	18.868	2,9%	18.597	3,1%
Underwriting risk (S6)	13.245	0,5%	12.470	0,5%
Concentration risk (S8)	0	0,0%	0	0,0%
Active management risk (S10)	4.706	0,1%	1.477	0,0%
Diversification effect	-52.100		-45.196	
subtotal, regulatory own funds	82.327	19,0%	76.192	19,0%
Decrease for allocation total technical provisions		-1,4%		-1,5%
Regulatory own funds		17,6%		17,5%
Technical provisions for fund's risk	433.683		401.453	
Technical provisions for members' risk	33.084		33.645	
Total technical provision for calculation of funding ratio	466.767		435.098	
Available monthly funding ratio	1.723	100,4%	23.029	105,3%
Policy funding ratio		104,7%		102,9%
Minimum required funding ratio	18.342	103,9%	17.094	103,9%
Required funding ratio in accordance with prevailing FT K	82.327	117,6%	76.192	117,5%

A standardised method (standard model) has been laid down by law to test whether the own funds available are adequate to absorb a number of specific financial risks and, consequently, whether the pension commitments can be fulfilled. The calculations of the regulatory funds are of particular importance to the fund's contribution-setting, recovery plan and feasibility test.

At 31 December 2018, the pension fund's policy funding ratio was 104.7% (2017: 102.9%), less than the strategic required funding ratio of 117.6% but more than the minimum required funding ratio of 103.9%. Consequently, the pension fund has a reserve shortfall but no longer has a funding shortfall.

Interest rate risk S1

The interest rate risk expresses the potential impact on the funding ratio of various changes in the market rate of interest on the value of the fixed-income portfolio against the pension obligations.

A decline in the interest rate, for example, gives rise to the risk of the value of the pension obligations rising faster than the value of the fixed-income portfolio and, consequently, of the total portfolio. This is the case when the average time to maturity of the obligations is longer than that of the fixed-income portfolio.

This interest rate exposure is one of the players involved in the determination of the strategic asset allocation and the duration of the portfolios. This interest rate is in part hedged by the duration of the fixed-income portfolio and in part by interest rate swaps.

The FTK lays down that the interest rate risk is the difference between the cash flows of interest-rate sensitive investments and those of the obligations. The sensitivity and the hedging percentage, the S1, are determined on the basis of the DNB interest rate shock test.

Stichting Pensioenfonds Essity

Interest rate risk

	2018	
	actual	strategic
Impact of DNB interest rate test on obligations, in euros (A)	32.841	32.841
Impact of DNB interest rate test on interest-rate sensitive obligations, in euros (B)	12.128	17.474
Buffer, Interest rate risk (S1)	20,713 = 2.8%	15,367 = 2.0%
Hedging percentage (B/A)	36,90%	53,20%
Interest rates	1,43%	
Duration of pension obligations	20,9	
Duration of fixed-income portfolio excl. interest hedging	8,3	
Duration of fixed-income portfolio incl. interest hedging	16,1	
Strategic interest hedging	50%	
Bandwidth of investment plan	30%-70%	
<i>Funding ratio sensitivity to a 1% point movement in interest rate (Source: MN)</i>		
Interest rate shock 0%	100,4%	
Interest rate shock 1%	110,2%	
Interest rate shock -1%	91,6%	
Changes in funding ratio with -1% point	-8,8%	

Variable-yield securities risk S2

Potential decreases in the value of investments in real estate and shares are taken into account in the aforementioned standard model. This involves a differentiated calculation carried out by categories of markets and investments. Estimates of the variable-yield securities risk are made on the basis of the risk parameters generally used in the market. The investment

policy takes account of risks of this nature by means including an adequate spread in the portfolio by making investments by category, market and similar. The volatility of the market values (price risks) of investments is evaluated at periodic intervals and can result in asset management adjustments. The make-up of the variable-yield securities is presented in the following table.

Stichting Pensioenfonds Essity

Spread of variable-yield securities by region and sector

	2018		2017	
	euros	%	euros	%
By region:				
Shares, Europe, excl. UK	39.389	19,5%	57.204	27,4%
Shares, USA	38.252	19,0%	45.175	21,6%
Shares, Far East	12.140	6,0%	15.649	7,5%
Shares, emerging markets	41.908	20,8%	47.428	22,7%
Indirect real estate, Europe	58.630	29,1%	43.356	20,8%
Infrastructure	11.496	5,7%	0	0,0%
Total variable-yield securities	201.815	100,0%	208.812	100,0%
By sector:				
Financial institutions	26.161	19,9%	34.219	21%
Trading and industrial companies	14.939	11,3%	22.255	13%
Energy	6.271	4,8%	8.068	5%
Technology	17.193	13,1%	23.622	14%
Consumer goods	24.930	18,9%	30.481	18%
Communication	11.701	8,9%	10.424	6%
Pharmacy and biotechnology	0	0,0%	0	0%
Materials	6.729	5,1%	11.864	7%
Other	23.765	18,0%	24.523	15%
Total equities funds	131.689	100,0%	165.456	100%
S2 on basis of strategic mix	11,8%		11,8%	

Illiquidity risk and securities lending

The illiquidity risk is the risk that assets cannot be converted into cash sufficiently quickly. This relates to assets invested in real estate. Illiquid investments in the portfolio are low, at 5% of the total assets. The fund uses MN's 'Securities Lending Programme' for the MN funds in the Return Portfolio. This programme requires physical (non-cash) collateral such as bonds. The collateral had an average value of 103.9% (13.5 million euros) at the end of the year.

Foreign exchange risk S3

As the pension obligations are denominated in euros, any exchange rate movements affect solely the value of the investments.

The Board has decided not to regard exchange rate movements as an option for increasing the value of the portfolio and, consequently, has decided to partly hedge fluctuations in the US Dollar, British Pound, Japanese Yen and other currencies against the Euro by means of derivatives contracts. The movements at the end of the year are presented in the following table.

Stichting Pensioenfonds Essity

Currency hedges (amounts in 1,000 euros)

	2018				2017			
	Before hedge	value derivative	After hedge	fair value	Before hedge	value derivative	After hedge	fair value
Euro	242.260	41.563	283.823	4	225.255	43.186	268.441	0
US Dollar	121.319	-33.391	87.928	0	133.151	-32.938	100.213	504
British Pound	2.661	0	2.661	0	3.292	0	3.292	0
Japanese Yen	7.967	-8.172	-205	0	10.380	-10.248	132	20
Other	63.853	0	63.853	0	64.308	0	64.308	0
Total	438.060	0	438.060	4	436.386	0	436.386	524
S3 strategic mix	1,7%				1,4%			

Commodities risk S4

As the fund does not invest in commodities, S4 is 0.

Credit risk S5

'Credit risk' is the risk of financial losses due to the insolvency of counterparties or their inability pay amounts owed to the pension fund, where applicable. This, in the pension fund's situation, relates primarily to investments in bonds. The credit risk is limited by spreading investments in fixed-income securities by region, counterparty credit rating and sector.

Stichting Pensioenfonds Essity				
Spread in fixed-income securities (amounts in 1,000 euros)				
	2018			2017
	Value	Duration Year	Credit spread	Value
Long-term European bonds	70.226	16,1	-0,20%	72.090
Corporate bonds	59.058	5,5	0,30%	73.389
Mortgages	53.525	6,4	1,27%	37.986
Bonds, emerging markets	49.749	6,0	2,80%	41.296
Short-term government bonds	1.532	<1		2.124
Deposits	1.000			1.000
Total fixed-yield securities	235.090			227.885
S5 on basis of strategic mix	2,9%			

The credit spread is a useful measure of the credit risk and determines the markup on the risk-free interest rate. This markup increases with the market's assessment of a party's credit risk and is indicative of the increase in the fee (the spread) that the market requires to be prepared to take the risk. The credit spread for long-term bonds is virtually 0, and for corporate bonds 0.5%.

Stichting Pensioenfonds Essity			
Fixed-income securities rating classes			
	2018	2017	
AAA	47,0%	43,0%	
AA	7,0%	7,0%	
A	16,0%	18,0%	
BBB	20,0%	23,0%	
Lower than BBB	9,0%	8,0%	
No rating	1,0%	1,0%	
	100,0%	100,0%	

Underwriting risk S6

In principle, the underwriting risk (S6) encompasses solely mortality risks. It encompasses risks arising from variances from expected mortality rates and variances from the expected mortality trend (longevity risk). The underwriting risk consists of the process risk and risk premium for variances from the mortality trend and negative stochastic variance from the expected value. These three risks are a percentage of the technical

provision based on current value. The process risk decreases with an increase in the number of members, as the mortality process can be estimated more precisely. The two risk factors take account of the mortality trend uncertainty and of the negative stochastic variances. The Provision for future mortality developments is formed for the longevity risk in supplement to the prudent principles that have been adopted. **S6 on the basis of strategic is 0.5%.**

Concentration risk S8

Large investment items can be regarded as a form of concentration risk. Items that come into consideration for this are identified by totalling all instruments with the same debtor in each investment category.

A large item is an item that represents more than 2% of the balance sheet total. The greatest concentration risk in the fixed-income securities relates to the German and Dutch government bonds as presented in the following table. No buffers have been maintained for these from the beginning of 2016.

Stichting Pensioenfonds Essity		
Concentration risk		
	2018	2017
Counterparty:	actual euros	actual euros
Dutch state	41.156	43.040
German state	17.120	16.855
S8	0,0%	0,0%

Active management risk S10

The active management risk (S10) arises when investment managers actively depart from the investment indexes to achieve higher results. The risk is largely applicable to investments in shares and is, in particular, measured via tracking error and TER (total

expense ratio) when the tracking error > 1%. The tracking error for shares is larger than 1%, as a result of which an active management risk is calculated. **S10 on the basis of strategic is 0.1%.**

Zeist, 4 June 2019

Members of the Board and Management of Stichting Pensioenfonds Essity on 4 June 2019:

E. Ligthart, Chair, C.N.H. Quint, Secretary, K. Boijenga, Member of the Board, E. Luiken, Member of the Board, R. van Sintemaartensdijk, Member of the Board, and Mathijs van Gool, Director

17. Other information

17.1 Appropriation of result

During its meeting on 4 June 2019, the Board of Stichting Pensioenfonds Essity decided to appropriate the result for 2018 as follows:

Stichting Pensioenfonds Essity

Appropriation of result for 2018, amounts in 1.000 euros

Total result	-21.077
- To General reserve	-21.306
- To Contribution deposit	229

18. Statements

18.1 Actuarial statement

Assignment

Stichting Pensioenfondss Essity, Zeist, gave Triple A – Risk Finance Certification B.V. the assignment to issue an actuarial statement as referred to in the Pensions Act on the financial year 2018.

Independence

As certifying actuary, I am independent of Stichting Pensioenfondss Essity, as required according to Article 148 of the Pensions Act. I perform no other work for the pension fund other than the work performed by virtue of the actuarial role. This is also applicable to other actuaries and experts in the employ of Triple A – Risk Finance Certification B.V.

Data

The data on which my investigation was based was provided by and were compiled under the responsibility of the board of the pension fund. I based my test of the technical provisions and assessment of the financial position on the underlying financial data that form the basis of the annual accounts.

Coordination with auditor

I and the auditor, on the basis of the guidelines applied by me and the auditor, coordinated on the activities for and the expectations during the audit of the financial year. I carried out the test of the technical provisions and the assessment of the financial position as a whole with materiality set to €4,500,000. The auditor and I agreed to report discrepancies over €225,000. These agreements are recorded and the results of my findings were discussed with the auditor.

I have also used the basic administrative data as examined by the auditor in the context of the audit of the annual accounts. The auditor of the pension fund informed me of his findings regarding the reliability (material correctness and completeness) of the basic administrative data and other assumptions which are of importance to my assessment.

Activities

In carrying out the assignment I, in line with my legal responsibility as laid down in Article 147 of the Pensions Act, examined whether the pension fund complies with the provisions of Article 126 to Article 140 inclusive of the Pensions Act. The basic administrative data provided by the pension fund are such that I have accepted these as the basis for my assessment of the calculations.

My activities in the performance of the assignment included an examination of whether:

- the technical provisions, minimum regulatory own funds and regulatory own funds have been set at an adequate level;
- the cost-effective contribution complies with the relevant statutory requirements;
- the investment policy complies with the prudent-person principle.

I have also formed an opinion on the financial position of the pension fund. I formed my opinion on the basis of the obligations entered into on balance sheet date and the available assets at that date, whereby I also took account the financial policy of the pension fund.

I carried out my investigation in a manner that provides a reasonable degree of certainty that the results do not contain any inaccuracies of material significance.

The activities described and the implementation thereof are in accordance with the applicable standards and common practice of the Royal Dutch Actuarial Association and, in my view, provide a sound basis for my opinion.

Opinion

The overall technical provisions have, pursuant to the specified calculation rules and terms of reference, been set at an adequate level. The pension fund's own funds at balance sheet date are lower than the minimum regulatory own funds.

I have, with due regard for the above, satisfied myself that the pension fund has, with the exception of articles 131 and 132, complied with articles 126 to 140 inclusive of the Pensions Act.

The policy funding ratio of the pension fund on balance sheet date is lower than the funding ratio with regulatory own funds, but is equal to/higher than the funding ratio with the minimum regulatory own funds.

My opinion on the financial position of Stichting Pensioenfondss Essity is based on the obligations entered into on balance sheet and the available funds on that date. In my opinion the financial position is poor, as the available own funds are less than the minimum regulatory own funds.

Amsterdam, 24 April 2019
Mr J.J.M. Tol AAG RBA
affiliated with Triple A – Risk Finance Certification B.V

18.2 Independent Auditor's Report

To: the Board of Stichting Pensioenfonds Essity

OPINION ON THE ANNUAL ACCOUNTS FOR 2018 ACCOMPANYING THE ANNUAL REPORT

Our opinion

We have audited the annual accounts 2018 of Stichting Pensioenfonds Essity, Zeist.

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Stichting Pensioenfonds Essity at 31 December 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The annual accounts comprise:

1. The balance sheet at 31 December 2018
2. The statement of income and expenditure for 2018
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the annual accounts' of our report.

We are independent of Stichting Pensioenfonds Essity as prescribed in the Audit Firms (Supervision) Act, the Regulation regarding the Independence of Accountants in the case of Assurance Engagements and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Code of Conduct and Professional Practice for Accountants Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION ON THE OTHER INFORMATION ENCLOSED IN THE ANNUAL REPORT

In addition to the annual accounts and our auditor's report thereon, the annual report also contains other information that consists of:

- The board report
- Other information

Based on the procedures performed below, we are of the opinion that the other information:

- Is consistent with the annual accounts and is free of material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of these procedures is substantially less than the scope of the procedures performed in our audit of the annual accounts.

The board is responsible for the preparation of the other information, including the board report and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE ANNUAL ACCOUNTS

Responsibilities of the board for the annual accounts

The board is responsible for the preparation and fair presentation of the annual accounts in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual accounts, the board is responsible for assessing the foundation's ability to continue as a going concern. Based on the financial reporting framework mentioned, the board should prepare the annual accounts using the going-concern basis of accounting unless the board either intends to liquidate the foundation or to cease operations, or has no realistic alternative but to do so, whereby it should be noted that pursuant to the Pensions Act the board can decide to cut pensions as the ultimate remedy.

The board should disclose events and circumstances that may cast significant doubt on the foundation's ability to continue as a going concern in the annual accounts.

Our responsibilities for the audit of the annual accounts

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included, for example:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board in the financial statements
- Concluding on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the foundation to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the annual accounts, including the disclosure
- Evaluating whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit.

Amsterdam, 4 June 2019

Mr M. van Luijk RA

19. Annexes:

19.1 Overview of invested assets (amounts in 1,000 euros)

Stichting Pensioenfonds Essity

Overview of invested assets for pension fund's risk

	2018		2017	
	euros	%	euros	%
Real estate:	70.126	16,3%	43.356	10,4%
Shares in real estate	58.630	13,6%	43.356	10,4%
Infrastructure	11.496	2,7%	0	0,0%
Dividend to be received	0	0,0%	0	0,0%
Variable-yield securities	131.689	30,6%	165.456	39,6%
Equities funds, emerging markets	41.908	9,7%	39.904	9,5%
Equity investment funds	89.781	20,9%	125.552	30,0%
Fixed-income securities	233.879	54,4%	226.608	54,2%
Government bonds	70.226	16,3%	72.090	17,2%
Fixed-income investment funds	108.807	25,3%	114.685	27,4%
Credits	1.635	0,4%	2.171	0,5%
Money market funds	0	0,0%	0	0,0%
Deposits	1.000	0,2%	1.000	0,2%
Mortgage loans	53.421	12,4%	37.706	9,0%
Short-term receivables from banks	-8.826	-2,1%	-8.437	-2,0%
Current interest	0	0,0%	233	0,1%
Banks	7.618	1,8%	7.163	1,7%
Current bank interest	-2	0,0%	-3	0,0%
Derivatives:	3.762	0,9%	1.776	0,4%
Swaps	3.741	0,9%	1.291	0,3%
Forward exchange contracts	4	0,0%	523	0,1%
Current interest	17	0,0%	-38	0,0%
Other short-term receivables less payables	-9.329	-2,2%	-19.231	-4,6%
Receivables and accrued income	2.632	0,6%	1.476	0,4%
Short-term debts	-7.477	-1,7%	-16.376	-3,9%
Deposit for transitional scheme	0	0,0%	0	0,0%
Appropriated contribution reserve	-4.467	-1,0%	-4.238	-1,0%
Deferred liabilities	-17	0,0%	-93	0,0%
Total invested assets	430.127	100,0%	417.965	100,0%

The **total invested assets** can also be calculated from the balance sheet, namely from the total assets less short-term debts less deferred liabilities less provision for pension obligations for members' risk:

Total assets	489.277	487.271
Short-term debts	-21.582	-22.079
Deposit for transitional scheme	0	0
Appropriated contribution reserve	-4.467	-4.238
Deferred liabilities	-17	-93
Pension obligations for members' risk	-33.084	-33.645
Other provision	0	-9.251
Total invested assets	430.127	417.965

19.2 Insured persons database

Stichting Pensioenfonds Essity

Insured persons database at end of financial year

	Members	Deferred members	Pension beneficiaries	Total
At 31 December 2017	1.418	1.318	674	3.410
Movement in balance:	-24	34	44	54
- Newly insured	75	0		75
- Departure with non-contributory entitlement	-92	92		0
- Value transfer	0	-7		-7
- Retirement	-18	-22	65	25
- Death	-1	-5	-17	-23
- Commutation	0	-4	-1	-5
- Other reasons	12	-20	-3	-11
At 31 December 2018	1.394	1.352	718	3.464

79 active members have a waiver or partial waiver from payments of contributions. 2017: 86

Specification of pension beneficiaries	2018	2017
- Old-age pension	504	469
- Partner's pension	177	170
- Orphans' pension	37	35
Total	718	674

19.3 Glossary

Share Proof of participation in the capital of a company, tradable on the stock exchange.

ABTR Abbreviation of Actuarial and Technical Business Report. The board of a pension fund explains the actuarial and technical business policies on which the fund is based in its ABTR, which is also referred to as a business plan. The ABTR addresses three main issues, namely the method used to determine the obligations towards the members, the investment portfolio and the internal risk management system.

Accounting standards Central agreements reached by the accountant profession on the manner in which the annual accounts of businesses are presented using uniform measurement methods and terms. These agreements are intended to further comparisons of annual reports.

Actuary A mathematician specialised in life insurance who carries out calculations including the fund's provision for pension obligations and advises the fund on the pension policy to be conducted.

Actuarial methods Methods based on actuarial principles that are used to calculate the cash value of a series of future benefits or contributions.

Actuarial principles The actuary uses a series of actuarial principles in the calculation of the cash value of a series of future benefits that include the market rate of interest, probability systems (mortality risk, invalidity and rehabilitation probability, marriage frequency and, on occasion, also future salary developments and indexation policy, etc.) and cost surcharges (to cover, for example, administration costs and/or payment charges).

Current value The current value of investments for which daily public prices are set, such as shares and bonds: the stock market value. The current value of other fixed-income securities, such as private loans and mortgage loans: the cash value of future net cash flows. The current value of investments in real estate funds: the intrinsic value.

Netherlands Authority for the Financial Markets The supervisory authority that monitors the conduct of the boards and administrators of financial institutions including pension funds.

Surviving Dependents Act The *Algemene nabestaandenwet* (Anw, Surviving Dependents Act) succeeded the General Widows' and Orphans' Benefits Act on 1 July 1996. The following groups are entitled to an Anw benefit on the death of their spouse or partner:
- dependants born before 1 January 1950;
- dependants who care for unmarried children younger than 18;
- dependants who are at least 45% incapacitated for work.
The net Anw benefit is a maximum of 70% of the net minimum wage and is dependent on the income. Income from work is partially exempt. Unmarried couples living together are considered equivalent to married couples.

General Old Age Pensions Act The *Algemene Ouderdomswet* (AOW, General Old Age Pensions Act) entered into force in 1956. This provides for national insurance that is applicable to all residents of the Netherlands. The AOW provides for pension benefits for senior citizens, which become payable from the date on which the beneficiary attains the AOW entitlement age. The benefit is not dependent on any wage earned before retirement, but is dependent on the beneficiary's marital status and family situation.

ALM Abbreviation of Asset Liability Management. An ALM study analyses the risk management of the balance between a pension fund's assets and liabilities. The study should result in the formulation of a strategic investment policy.

Invalidity pension The pension fund's invalidity pension supplements the government's invalidity benefit. There are two general forms of invalidity pension: (1) invalidity pension that tops up the WAO/WIA benefit shortfall and (2) supplementary invalidity pension.

Asset mix The breakdown of the investments across the various investment categories.

Backservice Pension entitlements, or the value of the entitlements, relating to the past period of service which arise due to changes in the pension base.

Benchmark Predefined objective standard for the performance of an investment portfolio or pension fund, or for the manager/administrator thereof, for example a stock market index. The pension fund's strategic investment policy specifies a predefined benchmark portfolio that can, for example, consist of indices.

Suitability screening De Nederlandsche Bank screens members of the pension fund's board to assess their suitability and integrity. DNB can prevent a change in the members of the board when this screening process yields a negative outcome. De Nederlandsche Bank screens the suitability of the entire board following any change in the members of the board.

Stock exchange price Market price of a share, bond or other security.

Special partner's pension The spouse or partner of a member or deferred beneficiary of the pension scheme whose marriage, registered partnership or partnership relationship within the meaning of the pension agreement is terminated receives a non-contributory entitlement to a partner's pension unless explicitly agreed otherwise.

Code of the Dutch Pension Funds A self-regulation system for the pension sector that entered into effect on 1 January 2014. The Code was also legally enshrined in the Pensions Act on 1 July 2014. The Code is based on the comply-or-explain principle. Compliance with all 83 standards of the Code is not mandatory. However, as from the 2014 financial year all pension funds are expected to include an explanation of any departures from the Code in their annual report. The Code was drawn up by the Federation of the Dutch Pension Funds and Labour Foundation to lay down standards for 'pension fund governance'. The societal importance of the pension fund and performance of the board need to receive more attention at this juncture in time. The Code replaces the 'Principles of good pension fund governance (PFG)' published by the Labour Foundation on 16 December 2005.

Cash value The cash value of the pension obligations is the amount that the pension fund now needs to have available to make all future payments.

Conversion The conversion of pension entitlements not only changes their nature but also changes the identity of the insured person. Half of the old-age pension entitlements accrued during the marriage and the special partner's pension are converted into old-age pension entitlements for the former partner or former spouse.

Member Employee in the service of the employer affiliated with the fund. The employee accrues pension entitlements with the fund pursuant to a pension agreement.

Years of membership All the years in which the employee has been a member of the fund.

Funding ratio A measure of the solvency of a pension fund. The current funding ratio is the amount of the total assets over the provision for pension obligations, expressed as a percentage: a funding ratio of 100% indicates that the total assets are just sufficient to pay the accrued entitlements. A percentage below 100% indicates underfunding. The 'policy funding ratio' term was introduced at the time that the new Financial Assessment Framework entered into effect on 1 January 2015. The policy funding ratio is the average current funding ratio during the past twelve months. The government introduced this rule to smooth the funding ratio by attenuating the peaks and valleys. This, for example, avoids the need for the Board to take drastic decisions on the basis of a snapshot in time. The supervisory authority, DNB,

requires pension funds to strive to maintain a policy funding ratio of 110%-130%, depending on their risk appetite as laid down in their investment policy.

De Nederlandsche Bank The supervisory authority established by law to monitor compliance, for example with the Pensions Act.

Derivatives Financial contracts with a value that is dependent on one or more underlying assets, reference prices or indices. Examples of derivatives include options, forward contracts and interest rate and currency swaps.

Direct investment returns The dividend and interest returns on investments.

Duration (provision for pension obligations) The weighted average term of the pension benefit payments by a pension fund, on the basis of the cash value of these payments. The duration is 12-13 years for a mature fund and 15-20 years for a young fund.

Duration (fixed-income securities) The weighted average term of the cash flow from a bond, whereby the weighing is made on the basis of the cash value of each cash flow. The duration is a measure of the interest rate sensitivity of a bond: the sensitivity of the price of a bond to interest rate fluctuations generally increases with the length of time to maturity.

Duration matching An investment strategy designed to lengthen the duration of the fixed-income segment of a pension fund's investment portfolio to approach the duration of the fund's provision for pension obligations. This virtually eliminates the fund's interest rate risk.

Securities-related market conduct supervision Supervision conducted by the Netherlands Authority for the Financial Markets focused on the conduct of the board and administrators of financial institutions, including compliance with codes of conduct.

Final salary pension scheme Generally a pension scheme in which the amount of the pension benefit is derived from the member's final salary. The pension follows the personal salary development during the period in which the employee is a member of the pension scheme. This ends on the termination of the membership of the pension scheme.

Fund-specific mortality-experience The adjustment of the Dutch life expectancy table to correct for the specific pension fund's mortality experience. This adjustment can vary between ages and between men and women. The combination of the life expectancy table and the mortality experience adjustment determines the life expectancy of the members of the fund and, consequently, the amount of the provision for pension obligations.

Franchise Many pension schemes incorporate a specific threshold amount over which no pension is accrued since the state old-age pension (AOW) is deemed to provide a pension benefit over this part of the salary. This threshold amount – the 'franchise' – is usually derived from the AOW pension benefit.

Financial Assessment Framework (FTK) A calculation method that all pension funds use on the instructions of the DNB supervisory authority. The FTK entered into effect in 2007. In essence, pursuant to the FTK pension funds may no longer discount their pension obligations (convert them into cash) at a fixed notional interest rate of 4%, but rather on the basis of the current market interest rate. The FTK also imposes stringent requirements on the financial buffers to be maintained by pension funds. Funds, in conclusion, must also require the employer to make a cost-effective contribution. The financial assessment framework was amended on 1 January 2015. One of the amendments related to the introduction of the policy funding ratio concept.

Code of Conduct Instructions for managers and, where relevant, employees of pension funds that are intended to avoid conflicts of interest and abuse/improper use of confidential information held by the pension fund. Most of this information relates to investment transactions conducted on behalf of the fund.

Deferred beneficiary A former member of a pension scheme who left the scheme on the termination of his/her employment with the affiliated employer. A deferred beneficiary no longer accrues pension entitlements, but does retain the right to pension entitlements accrued during employment. A deferred beneficiary is also referred to as an 'early leaver'.

Reinsurance Insurance pursuant to which a pension fund fully or partly places a pension scheme in a life insurance contract and/or insures very high risks with a life insurance company, such as death and incapacity risks of members.

Index A figure in the form of a weighted average that expresses the development of a parameter (for example, stock market prices on the Amsterdam Stock Exchange).

Indexation An increase of pension entitlements or pension benefits granted on the basis of rules specified in the pension regulations, or on a non-recurring basis. Indexation is now also referred to as 'supplement' or 'supplementation'.

Indirect investment returns The realised sales results inclusive of foreign currency results and unrealised revaluation results.

Internal supervision The periodic assessment of the performance of the board of the pension fund by independent experts. Internal supervision is an element of the Pension Fund Governance (Further Measures) Act and the Code of the Dutch Pension Funds. Internal supervision is intended to improve the performance of pension fund governance.

Intrinsic value The intrinsic value of a share is the 'actual' value of that share as derived from the underlying investments. The intrinsic value is calculated by deducting the liabilities (debts) from the value of the assets (possessions) and dividing the result by the number of outstanding shares.

Single premium A non-recurring payment to the administrator of the pension scheme for the purchase of a specific pension entitlement. A single premium is a one-off payment, whilst contributions are periodic payments. Both single premiums and contributions have the same objective, namely the financing of pension benefits.

Cash at bank and in hand Cash available at very short notice.

Market value Value of an investment on the market.

Market interest rate The interest rate prevailing on the financial market at a given time.

Average salary pension scheme A pension scheme with an annual calculation of the pension on the basis of the salary in that year. The pension accrued in previous years is not adjusted to the new salary. However, the pension fund does have the option of applying indexation to pensions in an average salary pension scheme. This maintains the pension's purchasing power. Indexation is almost always conditional, i.e. indexation is not granted or not granted in full when insufficient funds are available.

Multi-company pension fund A pension fund that administers the pension schemes of more than one company. A multi-company pension fund must ring-fence the assets of the various participating pension schemes. This new form of pension fund has one board, one members' council and one accountability body.

Surviving dependant's pension Partner's pension or Orphans' pension.

Nominal value The value printed on the share or bond certificate. A security trading at 100 (= 100%) has a price equal to the nominal value (at par).

Bond Proof of participation in a publicly issued loan. Bond certificates can be traded on a stock exchange.

Privately placed loan Loan against promissory note arranged between two parties that is not traded on the stock exchange.

Old-age pension A lifelong benefit provided to former members of the pension scheme from pension date until the time of death.

Life expectancy tables Lists of the chances of longevity and mortality risks for men and women in the Netherlands, dependent on the age reached. The actuary uses these when calculating the provision for pension obligations.

Partner's pension A benefit provided to the partner of a member or deferred beneficiary following the death of the member or deferred beneficiary.

Pension base In principle, the annual salary set on 1 January less the prevailing franchise at that time.

Pensions Register Pursuant to the Pensions Act, pension funds and pension insurers are required to set up a Pensions Register. The register was launched on 6 January 2011. The Pension Register presents the Dutch pension/collective pension entitlements on the www.mijnpensioenoverzicht.nl website.

Pension and Savings Funds Act Legislation that entered into force in 1952, and was succeeded by the Pensions Act on 1 January 2007.

Pension obligations The pension fund's obligations arising from all accrued pension rights and accrued pension entitlements.

Pensions Act Legislation that entered into force on 1 January 2007, and succeeded the Pensions and Savings Funds Act and the introduction of a large number of new policy issues.

Pension Fund Governance (PFG) Based on the results of a study adopted by the Labour Foundation (STAR) on 16 December 2005. Compliance with the PFG was laid down in the Pensions Act. The principles of the PFG relate to issues including the board's giving account for its activities, the expertise and independence of the board, transparency and communication, internal supervision and directly insured schemes. These lay down a minimum level that must be met by pension funds and offer scope for differentiation and customisation as determined by the specific character of the funds. The Code of the Dutch Pension Funds was replaced by the Pension Fund Governance (PFG) on 1 July 2014.

Performance The return generated on an investment expressed as a percentage of the investment.

Non-contributory entitlements Following the end of membership of the pension scheme other than on death or the attainment of retirement age, the former member – the deferred beneficiary – receives a non-contributory entitlement to an old-age and surviving dependant's pension. Another form of non-contributory entitlement is the entitlement to a special partner's pension that a former partner receives on divorce or end of the partnership.

Pre-pension A form of pension intended to replace the former early retirement scheme. This is a temporary benefit that ends by no later than age 65 or the time at which the old-age pension becomes payable, if earlier.

Rating The expression of a rating agency's opinion on the creditworthiness of an institution. Rating agencies such as Moody's and Standard & Poor's present all information of relevance to investors in as concise a rating as possible. An example of a rating scale for increasing creditworthiness is A, AA and AAA for debtor organisations in which investments in fixed-income securities are made.

Real interest rate The difference between the fund's return and wage or price inflation.

Return The positive or negative result on an investment during a specific period as expressed as a percentage of the amount of the investment.

Interest rate structure A series of interest rate percentages on loans and bonds over a specific term ranging from 1 month to 30 years, often presented in the form of a chart. The future obligations are classified into year of payment and converted into cash against the interest rate specified for the relevant year.

Solvency The ability to meet the financial obligations at present and in the future.

Early leaver See also deferred beneficiary.

Mortality table Also referred to as 'life expectancy table' and 'survival table'. See also life expectancy table.

Supplement/supplementation See indexation.

Total return The total return on an investment consists of the price gain or price drop (indirect investment returns) during the relevant period, whilst direct investment returns (dividend, interest, redemptions, rent and similar receipts) are reinvested immediately and are included, as time-weighted returns, in the total return. The total return is expressed as a percentage of the average invested assets.

UPO (Uniform Pension Overview) A statement pension administrators (pension funds and pension insurers) are required to periodically issue to persons in the Netherlands with a pension managed by the administrator.

Fixed-income securities Mortgage loans, liquid funds, loans against promissory notes and bonds.

Accountability body Term used in the Pension Fund Governance (as well as in the Pension Fund Governance (Further Measures) Act and the Code of the Dutch Pension Funds) to designate a committee to which the board gives account, the members of which include representatives from the members of the pension fund, pension beneficiaries and employer or employers. Early leavers may also be represented.

Equalisation Division of old-age pension entitlements accrued during the marriage in accordance with the provisions of the Equalisation of Pension Rights in the Event of a Divorce Act.

Underwriting risks Pension funds insuring old-age pension entitlements run a longevity risk, namely the risk that persons insured live longer than expected pursuant to the applicable life expectancy table. Pension funds also run a short-life risk with surviving dependant's pensions, the risk that insured persons live shorter than expected pursuant to the applicable life expectancy table. The pension fund's underwriting risks also include invalidity risk.

Volatility Fluctuations in stock market prices.

Provision for pension obligations Specified balance sheet item that represents the capitalised value (cash value) of the accrued pension rights and pension entitlements.

VPL transitional scheme Early retirement, pre-pension and career framework transitional scheme. Relict from the past. VPL rights were calculated in 2006, in accordance with a methodology agreed between the employer and trade unions. The rights are conditional and the employer is responsible for the funding unless otherwise agreed with the trade unions. The pension fund administers the scheme.

Value transfer Employees who have accrued pension entitlements with a previous employer can transfer those entitlements to a new employer's pension fund. This is referred to as a value transfer. The entitlements accrued with the 'old' pension fund then expire.

Index-linked (prices) Adjustment in accordance with price increases.

Index-linked (wages) Adjustment in accordance with wage increases.

Pension Fund Governance (Further Measures) Act Legislation that entered into force on 1 July 2014, requiring pension funds to comply with the new governance legislation as from that date. The Act is primarily intended to enhance the expertise of the board and internal supervision, streamline tasks and bodies and provide for adequate representation of all risk bearers. The Act primarily addresses the management model (organisation of the board, internal supervision and co-determination) adopted by the pension fund.

Orphans' pension A temporary benefit provided to the children of a deceased member or deferred beneficiary until they reach a certain age. See also surviving dependant's pension.

WGA shortfall pension Partially incapacitated employees initially receive a wage-related WGA benefit pursuant to the WIA. The amount of this benefit depends on the partially incapacitated employee's remaining earning capacity. However, this benefit is of a limited term that is dependent on the employee's service years. A partially incapacitated employee who is not working by the end of the wage-related benefit term or earns less than 50% of the earning capacity specified by the Employee Insurance Agency receives a benefit based on a percentage of the minimum wage (depending on the percentage incapacity for work). This follow-up benefit is lower than the pay-supplementary benefit that the incapacitated employee would have received if he/she had utilised 50% or more of his/her earning capacity. This difference is referred to as the 'WGA shortfall'. The pension fund can make up this difference with a WGA-shortfall pension.

UFR DNB decided to adjust the interest rate structure for pension funds as from 30 September 2012. The adjustment to the interest rate structure relates to an adjustment of the interest rate for terms to maturity of longer than 20 years. The interest rate for terms of maturity to 20 years inclusive is equal to the perceived average three-monthly interest rate. Extrapolation is used to approach the ultimate forward rate (UFR) for terms of maturity from 21 years. The UFR is set at 4.2%. The extrapolation of the forward rate consists of a weighted average of the perceived forward rate (based on the average three-month swap curve) and the UFR.

WIA Abbreviation of the *Wet Werk en inkomen naar arbeidsvermogen* (WIA, Work and Income (Fitness for Work) Act). The WIA applies to persons who became incapacitated for work on or after 1 January 2004. Persons who were incapacitated for work before that date continue to be governed by the *Wet op de arbeidsongeschiktheidsverzekering* (WAO, Invalidity Insurance Act). The WIA was introduced due to the large number of persons who claimed a WAO benefit. The new Act assigns priority to work. Employees and employers are given financial incentives to make every possible effort to help partially incapacitated employees find work or continue to work.

WIA benefit An invalidity benefit as referred to in the WIA. This benefit can be based on the *Regeling werkhervatting gedeeltelijk arbeidsgeschikten* (WGA, Return to Work (Partially Disabled Persons) Regulations) or *Regeling inkomensvoorziening volledig arbeidsongeschikten* (IVA, Fully Disabled Persons Income Scheme).

Wvps Abbreviation of *Wet verevening pensioenrechten bij scheiding* (Equalisation of Pension Rights in the Event of a Divorce Act).

Variable-yield securities Shares, convertible bonds and real estate/real estate funds.