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This is Essity

Net sales 2017

109,265
SEKm

Sales in approximately

150
countries

Adjusted EBITA¹⁾ 2017

13,405
SEKm

Employees, approximately

48,000
around the world

¹⁾ Operating profit before amortization of acquisition-related intangible assets, excluding items affecting comparability.

Our three business areas



Personal Care [READ MORE ON PAGES 46-51](#)

Essity is a leading global player in personal care. Our offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. Products are sold under brands such as Jobst, Leukoplast, Libero, Libresse, Nosotras, Saba and the globally leading brand TENA, and as retailers' brands.



Consumer Tissue [READ MORE ON PAGES 52-55](#)

Essity is the world's second largest supplier of consumer tissue. Our offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. Products are sold under brands such as Edet, Lotus, Regio, Tempo, Vinda and Zewa, and as retailers' brands.



Professional Hygiene [READ MORE ON PAGES 56-59](#)

Essity is the world's largest supplier of products and solutions in the market for professional hygiene under the globally leading Tork brand. Our offering comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, Internet of Things sensor technology, as well as service and maintenance.

About the report The Annual and Sustainability Report 2017 for Essity Aktiebolag (publ) has been submitted by the Board of Directors and describes the company's overall objectives and strategies and earnings for the year. The aim is to describe the business from an economic, social and environmental perspective. The Board of Directors' Report and financial statements are presented on pages 38-161 and includes the auditor's report from our auditors. Pages 66-83 and 149-156 encompass Essity's statutory sustainability report according to the requirements stated in the Annual Accounts Act. The report was prepared in accordance with GRI Reporting Standards: Core. It also constitutes Essity's Communication on Progress (COP) to the UN Global Compact.

Our strengths



Leader in an attractive and growing hygiene and health market

Essity is a leading global hygiene and health company. Shifts in global demographics such as population growth, due primarily to a lower infant mortality rate and increased longevity, and higher disposable income point to continued good growth for hygiene and health products. An increased prevalence of chronic diseases and greater life expectancy of people with chronic diseases, also support future growth in the market for health products.

Strong presence in emerging markets

Essity holds a strong position in several key emerging markets, such as China, Latin America and Russia. We are the majority shareholder in Vinda, one of China's largest hygiene companies. Emerging markets accounted for 35% of Essity's net sales in 2017. The growth potential for hygiene and health products is substantial in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, infrastructure and the retail trade are evolving rapidly. Increased disposable income leads to higher standards of living and to more people prioritizing hygiene and health. Consequently, demand and market penetration for hygiene and health products are rising in emerging markets.

Leading market positions and strong brands

Essity has sales in approximately 150 countries. We are the global market leader in incontinence products under the TENA brand and in professional hygiene under the Tork brand. In addition, we have strong brands and market positions in the markets for baby care, feminine care, medical solutions and consumer tissue. Essity holds the number one or number two position within at least one product segment in approximately 90 countries.

Successful innovations

Essity's offerings simplify everyday life for millions of people worldwide. Innovations and product launches are a top priority when it comes to delivering increased customer and consumer value, as well as reducing resource consumption in all stages of the value chain. We strive to create market-leading digital products and solutions in hygiene and health. In 2017, we further developed our customer and consumer offering and launched 41 innovations.

Focus on efficiency improvements and cost savings

Essity continuously works to improve efficiency in order to thereby strengthen competitiveness, cut costs and improve earnings. A more efficient value chain can be achieved by streamlining the supply chain and leveraging economies of scale. Improved capital efficiency, lower costs and strengthened cash flow are made possible through efficiency improvements and savings measures, as well as the optimization of capital employed in all parts of the company. Essity has global units, for example, for innovation and brand activities, as well as production, sourcing and logistics, to generate cost synergies and enable efficient resource allocation.

Profitable growth and strong cash flow

Through continuous work to grow profitable market positions, improve or exit underperforming positions, successful innovations and efficiency improvements, Essity has demonstrated profitable growth and strong cash flow.

Between 2014 and 2017, Essity's net sales increased 24.2%, of which organic sales grew by 10.0%. During the same period, adjusted EBITA¹⁾ increased 41% and adjusted EBITA margin¹⁾ increased from 10.8% to 12.3%. The company has generated strong cash flow and in 2017 cash flow from operating activities amounted to SEK 12,729m.

¹⁾ Excluding items affecting comparability.



The year at a glance

Key events

- Acquisition of BSN medical, a leading medical solutions company, was closed on April 3, 2017.
- On April 5, 2017, the Annual General Meeting of SCA decided, in accordance with the Board of Directors' proposal, to distribute all shares in Essity Aktiebolag (publ) to SCA's shareholders.
- On June 15, 2017, Essity Aktiebolag (publ) was listed on Nasdaq Stockholm.
- Financial targets for Essity Group were announced: Annual organic sales growth of above 3% and adjusted return on capital employed of above 15%.
- The hygiene business in India was discontinued.
- Decision was taken on restructuring measures in tissue production in the UK and US.
- Decision on investment in tissue operations in Mexico and the UK, and Baby Care operations in Europe.
- Collaboration with Microsoft on the Internet of Things to further strengthen Essity's innovation agenda.
- Convening partner to the fifth annual meeting of the UN Foundation Dialogue on the Global Agenda held at the UN headquarters in New York. Discussions concerned how to achieve the 17 UN Sustainable Development Goals.
- CDP, an international not-for-profit charity that promotes a more sustainable economy, named Essity as global leader in initiatives for water and wood fiber-based materials and awarded the company its highest score.
- Recognized as one of the world's top 100 most sustainable companies by Corporate Knights.
- Received honorary recognition at the European Paper Recycling Awards held by the European Parliament for its work on Tork PaperCircle™, the world's first recycling service for paper hand towels.

Key figures

	2017		2016	
	SEK	EUR ⁴⁾	SEK	EUR ⁴⁾
Net sales, SEKm/EURm	109,265	11,343	101,238	10,706
EBITA, SEKm/EURm	12,550	1,303	9,347	989
Adjusted EBITA ¹⁾ , SEKm/EURm	13,405	1,392	11,992	1,268
EBITA margin, %	11.5		9.2	
Adjusted EBITA margin ¹⁾ , %	12.3		11.8	
Operating profit, SEKm/EURm	11,905	1,236	9,008	953
Adjusted operating profit ¹⁾ , SEKm/EURm	12,845	1,334	11,833	1,251
Operating margin, %	10.9		8.9	
Adjusted operating margin ¹⁾ , %	11.8		11.7	
Profit before tax, SEKm/EURm	10,723	1,113	8,173	865
Adjusted profit before tax ¹⁾ , SEKm/EURm	11,663	1,211	10,998	1,163
Profit for the year, SEKm/EURm	8,785	912	4,242	449
Adjusted profit for the year ¹⁾ , SEKm/EURm	9,472	983	6,643	703
Earnings per share, SEK	11.56		5.41 ²⁾	
Adjusted earnings per share ³⁾ , SEK	13.09		8.99 ²⁾	
Cash flow from current operations per share, SEK	12.45		12.19 ²⁾	
Equity per share, SEK	70.58		56.13 ²⁾	
Dividend per share, SEK	5.75 ⁵⁾			
Strategic capital expenditures, including acquisitions, SEKm/EURm	-28,146	-2,922	-8,573	-907
Divestments, SEKm/EURm	29	3	369	39
Equity, SEKm/EURm	49,570	5,039	39,580	4,141
Return on capital employed, %	13.9		12.8	
Adjusted return on capital employed ¹⁾ , %	14.9		16.4	
Return on equity, %	19.8		9.3	
Adjusted return on equity ¹⁾ , %	21.3		14.5	
Debt/equity ratio	1.06		0.89	
Debt/equity ratio, excluding pension liabilities	0.99		0.76	
Average number of employees	46,385		42,149	
No. of employees at Dec. 31	47,700		42,520	
Accident frequency rate, (LTA ⁶⁾ /1,000,000 WH)	3.8		4.1	
People and nature innovations ⁷⁾ , %	42		41	

¹⁾ Excluding items affecting comparability.

²⁾ Indicative on the assumption that the number of issued shares in Essity as of December 31, 2016 corresponded to the number of issued shares in Essity on December 31, 2017 (702.3 million).

³⁾ Excluding items affecting comparability and amortization of acquisition-related intangible assets.

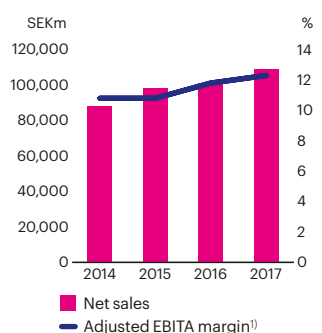
⁴⁾ See footnote ¹⁾ on pages 96 and 100 for exchange rates.

⁵⁾ Dividend proposed by the Board of Directors.

⁶⁾ Lost Time Accidents.

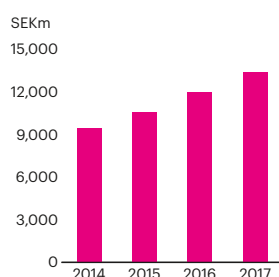
⁷⁾ Share of Essity's innovations that yielded social and/or environmental improvements.

Net sales and adjusted EBITA margin¹⁾

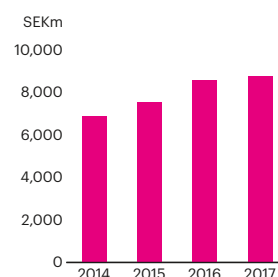


¹⁾ Excluding items affecting comparability.

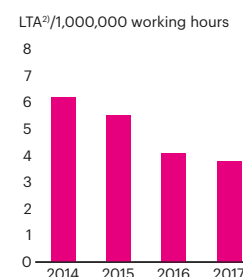
Adjusted EBITA¹⁾



Cash flow from current operations

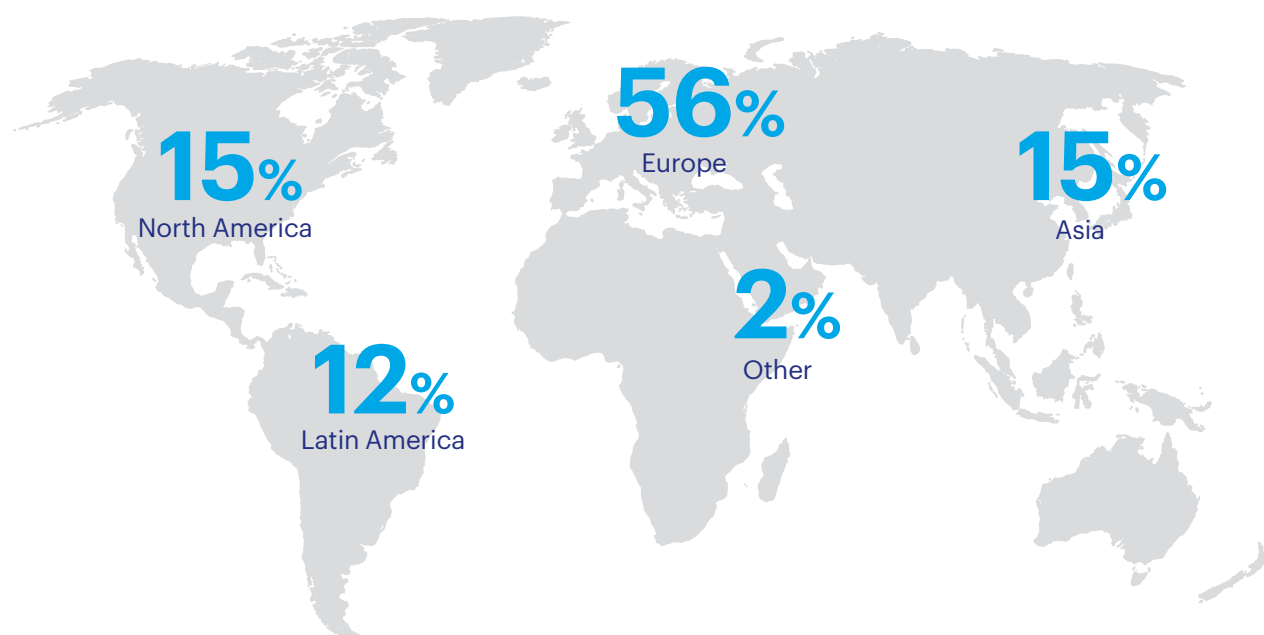


Accident frequency rate



²⁾ Lost Time Accidents.

Net sales 2017 by region



Net sales 2017 by country, SEKm

US	14,422
Germany	11,400
China	10,982
France	9,510
UK	7,832
Spain	5,665
Mexico	4,223
Colombia	3,765
Netherlands	3,286
Italy	3,236

Essity educated more than 2.5 million in hygiene and health



100,000 parents-to-be

More than 100,000 parents-to-be took part in courses on breastfeeding, nutrition and hygiene, and how childbirth affects women and women's bodies.



300,000 children

Almost 300,000 children and young people took part in courses about hand hygiene through initiatives in schools, and via the popular and educational app "Ella's hand washing adventure".



100,000 nurses

More than 100,000 nurses and other caregivers were trained in incontinence care, skincare, dementia, lymphology and wound care across the globe.

Essity improves people's well-being

The listing of Essity on Nasdaq Stockholm on June 15, 2017, resulting from the split of SCA, has shown the value of two strong listed companies. Through the split and the acquisition of the leading medical solutions company BSN medical, we created Essity, a leading global hygiene and health company.

The name Essity stems from the words: essentials and necessities. Hygiene and health are necessities for a better life, and our products and solutions play an essential role in improving well-being in the world. Our vision is: Dedicated to improving well-being through leading hygiene and health solutions.

We are improving hygiene and health in the markets in which we operate through innovation and education, thereby strengthening our market positions and creating growth opportunities. During the year, we launched 41 innovations that improved our customer and consumer offering in all categories and we have educated more than 2.5 million people about menstruation, puberty, hand hygiene, incontinence care, parenting as well as lymphology and wound care.

Increased net sales and improved profitability

Essity's net sales and adjusted EBITA¹⁾ increased by 8.0% and 12%, respectively, during the year. Organic sales increased by 1.2%. Excluding currency translation effects and the acquisition of BSN medical, adjusted EBITA¹⁾ increased by 1%. Essity's adjusted EBITA margin¹⁾ rose 0.5 percentage points to 12.3%. The adjusted return on capital employed¹⁾ was 14.9%. The Board of Directors proposes a dividend of SEK 5.75 per share.

2017 was a challenging year, with lower market growth and price pressure in parts of the business at the same time as raw material costs increased by approximately SEK 1.7bn. We have therefore intensified our work to achieve savings, which resulted in lower costs of approximately SEK 1.2bn. Through innovations, we have substantially improved the product mix in several areas. To further compensate for the higher raw material prices, we negotiated with many customers concerning price increases during the second half of the year.

Innovation and efficiency to achieve our goals

Essity's financial targets are annual organic sales growth of above 3% and adjusted return on capital employed of above 15%. To achieve these, we are working to improve underperforming market positions, enhance efficiency, reduce costs, and implement price increases and, through innovation, improve the product mix. Our focus on digitalization is continuing in all parts of the business. Our products are well suited to e-commerce and are currently available online in most markets, either via our own or external platforms. During the year, we entered into a partnership with Microsoft relating to the



“Essity targets continued growth, both organically and through acquisitions, at the same time as we improve profitability.”

Internet of Things to further enhance our digital innovation and create market-leading digital products and solutions. We have launched Tork EasyCube™, web-connected dispensers for products such as soap and paper hand towels, which provides real-time information to optimize cleaning procedures.

In the Personal Care and Professional Hygiene business areas, we are focusing on growth. In the Consumer Tissue business area, we are prioritizing increasing the margin and

¹⁾ Excluding items affecting comparability.

the return on capital employed. To improve margins and increase value creation in the Consumer Tissue and Professional Hygiene business areas, we have continued to work with Tissue Roadmap, a plan launched in 2016 to increase efficiency in tissue production, increase capital efficiency and ensure high-quality capacity for future growth.

Within the scope of the Group objective to contribute to a sustainable and circular society, we are working to minimize resource use and waste, which also results in cost savings for the company. Innovations have a key role to play in achieving a circular society. In 2017, under our globally leading Tork brand, we launched Tork PaperCircle™, a service that helps our customers to recycle used paper hand towels, and Tork PeakServe®, an efficient dispenser for paper hand towels specifically designed for busy washrooms.

A winning corporate culture

Our corporate culture is decisive for our continued success. During the year, we worked to develop our culture, which is characterized by commitment to results, care, collaboration and courage.

All employees are trained in our well-established Code of Conduct, which, for example, emphasizes zero tolerance for abuse, harassment, corruption and other unethical behavior.

Successful start to the integration of BSN medical

The acquisition of BSN medical, a leading medical solutions company within wound care, compression therapy and orthopedics, was closed in 2017. Integration work is progressing as planned and the business is included as the Medical Solutions product segment in the Personal Care business area. The acquisition has provided us with leading market positions in several attractive medical solutions product categories and a growth platform with future consolidation opportunities. Our incontinence business, with the globally leading TENA brand, shares similar positive market characteristics, customers and sales channels with Medical Solutions, which will provide opportunities for accelerated growth through cross-selling.

Initiatives and awards

Essity has a business strategy that includes economic, social and environmental perspectives to achieve long-term sustainable, efficient and profitable business. We received confirmation of this when we were named one of the world's top 100 most sustainable companies by Corporate Knights.

In addition, CDP, an international not-for-profit charity that promotes a more sustainable economy, named Essity as global leader in sustainable initiatives for water and wood fiber-based materials. CDP also stated that we have a leading role in climate work.

Essity was convening partner to the fifth annual meeting of the UN Foundation Global Dialogue, which brings together companies, authorities and NGOs to discuss how to achieve the UN Sustainable Development Goals. Essity supports the UN Global Compact.



On June 15, 2017, Essity was listed on Nasdaq Stockholm in Sweden.

Essity in five years

Essity targets continued growth, both organically and through acquisitions, at the same time as we improve profitability.

We will develop our culture to attract result-oriented employees who, through great dedication, will develop both Essity and themselves.

The world's population and life expectancy are on the increase at the same time as poverty is decreasing, meaning more people are using hygiene and health products to improve quality of life and well-being. There is great potential for Essity in emerging markets and our ambition is that these will account for a larger share of net sales in the future.

Innovation has the highest priority when it comes to meeting the needs of customers and consumers. We will continue to strengthen and develop our offering and brands. Digitalization is a top priority in our production, sales and marketing communication to increase growth, efficiency, market presence and profitability.

Every day, hundreds of millions of people use our products and solutions. By continuing to grow and develop as a company, we want to contribute to improve hygiene and health in the markets where we operate to improve people's well-being.

Magnus Groth
President and CEO



A new brand, name and logotype were developed, communicated and launched in 2017. The name Essity stems from the words “**essentials**” and “**necessities**”. We are a leading global hygiene and health company offering products for “everyday necessities”. Hygiene and health are the essence of well-being. Better hygiene and health are necessities for better lives and our products and solutions play an essential role in improving well-being.

United Nations Foundation Global Dialogue creates opportunities

We want to promote global dialogue about health and hygiene to emphasize the importance of these issues. To contribute toward the UN’s 17 Sustainable Development Goals, we were – for the second consecutive year – a convening partner to the United Nations Foundation (UNF) Global Dialogue, held at the UN headquarters in New York. The forum invites businesses,

NGOs and authorities to discussions to increase focus on the UN’s 17 global goals. Essity’s President and CEO Magnus Groth gave the opening and closing speeches at the UNF’s Global Dialogue, addressing matters such as the importance of collaboration between different companies and organizations.



Miroslav Lajčák, President of the UN’s General Assembly and Magnus Groth, President and CEO of Essity, at the UN Foundation Global Dialogue in October 2017.

“Essentials Initiative”

Through Essity’s “Essentials Initiative”, we are pursuing a global dialogue to increase awareness of the importance of hygiene and health and their link to well-being. Two integral aspects of the “Essentials Initiative” are a global survey of attitudes to hygiene and health and a report. The 2016/2017 report looked at the economic value of investing in these areas, breaking taboos and stigma surrounding menstruation and incontinence, as well as innovative solutions for the future. The report was produced in collaboration with the UN’s Water Supply and Sanitation Collaborative Council (WSSCC). The WSSCC is the main UN body that works solely with sanitation and hygiene issues.

“Like so many women, I have in the past felt so embarrassed that I have suffered in silence, but no more.” Edwina White, who has lived with incontinence for more than ten years, is one of the persons portrayed in Essity’s and the Fotografiska Museum’s joint exhibition: Hygiene – A Circle of Life.



During the panel discussion in conjunction with the opening of the photographic exhibition, hygiene and health were discussed and how important these are for people’s well-being. Ulf Wickbom, moderator, Archana Patkar, Head of Policy and Advocacy at the Water Supply and Sanitation Collaborative Council (WSSCC), Anna Rosling Rönnlund, Co-founder & Product Manager of Gapminder Foundation, Magnus Groth, President and CEO of Essity and Susanna Campbell, Chair of the Investment Committee at Norrskén Foundation.

Hygiene – A Circle of Life

Essity has entered into a three-year agreement with the Fotografiska Museum in Stockholm, Sweden. During the collaboration, Essity and Fotografiska will jointly produce photographic exhibitions on the theme of hygiene and health. Between November 2017 and January 2018, the “Hygiene – A Circle of Life” exhibition was held, where everyday hygiene situations were portrayed. The aim is to break the taboo around issues of hygiene, for example, menstruation and incontinence, and to continue pursuing a global dialogue around these issues.