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■ The Board of Directors' Report and financial statements

The Annual and Sustainability Report 2018 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 6–8 and 20–126 and include the auditor's report. Pages 33–45 and 114–121 encompass Essity's statutory sustainability report according to the requirements stated in the Annual Accounts Act. The company's business model can be found on page 11. 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.

This is Essity

Essity is a leading global hygiene and health company. We improve people's well-being through our products and services.

Sales are conducted in approximately 150 countries under the globally leading brands TENA and Tork, and other strong brands, such as JOBST, Leukoplast, Libero, Libresse, Lotus, Nosotras, Saba, Tempo, Vinda and Zewa.

Essity is listed on Nasdaq Stockholm.

Net sales 2018

118,500
SEKm

Sales in approximately

150
countries

Adjusted EBITA¹⁾ 2018

12,935
SEKm

Employees, approximately

47,000
around the world

Essity's market capitalization

153
SEKbn
at December 31, 2018

¹⁾ Excluding items affecting comparability.

Our business areas

Personal Care

Essity is a leading global player in personal care. Our offering includes Incontinence Products, Baby Care, Feminine Care and Medical Solutions. In the market for incontinence products, Essity is the global market leader and the Group holds strong market positions in baby care, feminine care and medical solutions. Read more on pages 22–23.

Consumer Tissue

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. Read more on pages 24–25.

Professional Hygiene

Essity is the world's largest supplier of products and services in the market for professional hygiene. Our offering comprises complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap and dispensers. Read more on pages 26–27.



Our strengths

Leading market positions in an attractive and growing hygiene and health market

Essity is a leading global hygiene and health company. We have sales in approximately 150 countries and hold the number one or number two position within at least one product category in approximately 90 countries.

Shifts in global demographics such as population growth and increased longevity as well as higher disposable income point to continued good growth for hygiene and health products. An aging population and increased prevalence of chronic diseases, such as obesity and diabetes, and greater life expectancy of people with chronic diseases, are expected to increase demand for incontinence products and medical solutions. Market growth for hygiene and health products is also positively impacted by increased awareness of the importance of hygiene to avoid diseases and improve health.

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 2018. The growth potential for hygiene and health products is high in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, higher disposable income, the development of the retail trade and improved access to health care are resulting in increased demand for hygiene and health products.

Strong brands and successful innovations

Essity is the global market leader in incontinence products with the TENA brand and in Professional Hygiene with the Tork brand. We also have strong brands and market positions in the markets for baby care, feminine care, medical solutions and consumer tissue. Essity's offerings simplify everyday life for hundreds of millions of people worldwide every day. In 2018, we launched important innovations that offer greater value for customers and consumers while also reducing resource consumption. As an important element in our innovation work, we develop market-leading digital products and services in hygiene and health.

Focus on efficiency improvements and cost savings

Essity continuously works to improve efficiency in order to strengthen competitiveness, cut costs and improve earnings. By streamlining the supply chain and leveraging digitalization and economies of scale, a more efficient value chain is achieved. 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.

To improve profitability and strengthen the company's long-term cost efficiency, Essity introduced a Group-wide cost-savings program in September 2018. The program is in addition to the efficiency initiatives already in progress in the company. Changes were also made to the company's organizational structure and Executive Management Team.

Sustainable business model with profitable growth and strong cash flow

Essity's sustainable business model creates value for both people and nature. Essity's objective is to develop products and services that contribute toward a sustainable and circular society where we strive to reduce resource consumption and to offer efficient recycling or composting of our products. In 2018, Essity was included in Dow Jones Sustainability Index and named industry leader in the Household Products sector.

Through continuous work to grow profitable market positions, improve or exit underperforming positions, and successful innovations and efficiency improvements, Essity has demonstrated profitable growth and strong cash flow. Between 2014 and 2018, Essity's net sales increased 34.7%. Organic net sales increased 13.3%, corresponding to an annual increase of 3.2%. During the same period, adjusted EBITA¹⁾ increased 36% and the adjusted EBITA margin¹⁾ increased from 10.8% to 10.9%. The company has generated strong cash flow and in 2018, operating cash flow amounted to SEK 12,324m.

¹⁾ Excluding items affecting comparability.



2018 at a glance

Key events

- **Successful innovations**

In all product categories innovations were launched that strengthened Essity's customer and consumer offering.

- **Essity industry leader in Dow Jones Sustainability Index**

Essity qualified for inclusion in the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index, and was named industry leader in the Household Products sector.

- **Restructuring measures in tissue production**

To further improve cost and capital efficiency in Consumer Tissue and Professional Hygiene, decisions were taken on restructuring measures in tissue production in Europe, North America and Latin America.

- **Group-wide cost-savings program**

To improve profitability and strengthen long-term cost efficiency, a Group-wide cost-savings program was introduced. The program is expected to generate annual cost savings of approximately SEK 900m, with full effect at the end of 2019.

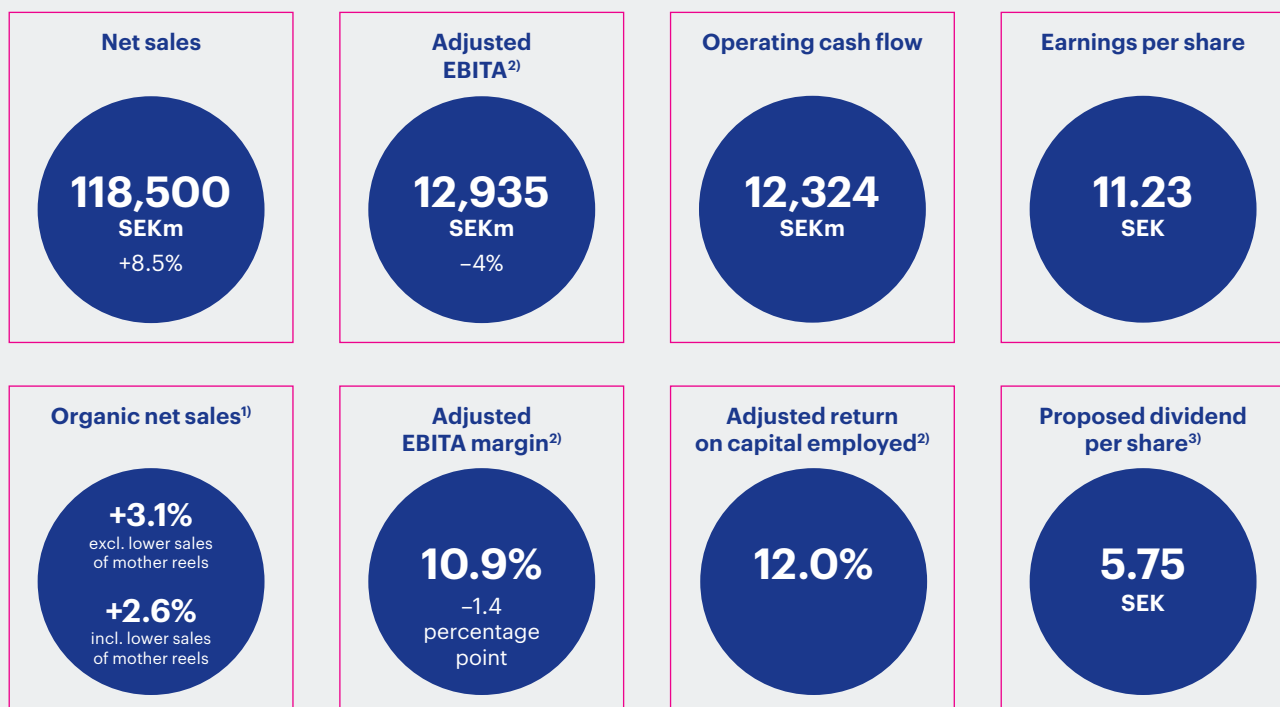
- **New organization**

To strengthen competitiveness and increase efficiency, changes were made to the organizational structure and Executive Management Team.

Key figures

2018 compared with 2017

- Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 2.6%, of which volume accounted for 0.5% and price/mix for 2.1%. Organic net sales increased 0.9% in mature markets and increased 5.9% in emerging markets. Emerging markets accounted for 35% of net sales.
- Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA) declined 4% (11% excluding currency translation effects and acquisitions) to SEK 12,935m (13,405). Higher prices, better mix, higher volumes, cost savings and the acquisition of BSN medical had a positive impact on earnings.



¹⁾ Net sales excluding exchange rate effects, acquisitions and divestments.

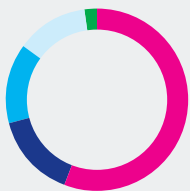
²⁾ Excluding items affecting comparability.

³⁾ Board of Directors proposal.



Hundreds of millions of people use Essity's products and services every day and Essity educated approximately 2.5 million people in hygiene and health in 2018.

Net sales by region



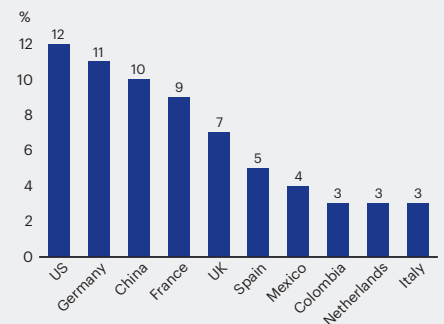
Europe	56%
Asia	15%
North America	14%
Latin America	13%
Other	2%

Net sales by business area

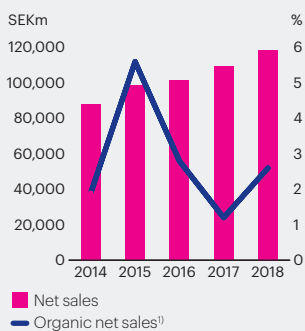


Personal Care	38%
Consumer Tissue	38%
Professional Hygiene	24%

The Group's largest markets, % of net sales

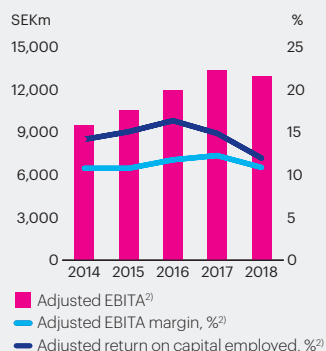


Net sales and organic net sales¹⁾



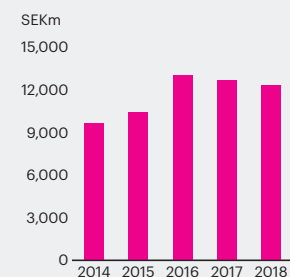
¹⁾ Excluding exchange rate effects, acquisitions and divestments.

Adjusted EBITA²⁾, adjusted EBITA margin²⁾ and adjusted return on capital employed²⁾



²⁾ Excluding items affecting comparability.

Operating cash flow



Progress in many areas during a challenging year

In 2018, we strengthened our brands through successful innovations, improved our product mix, implemented price increases and intensified efficiency improvements and restructuring measures. We took actions in all parts of the business to increase profitability and offset the negative impact on earnings of the significantly higher raw material and energy costs. The work to contribute to a sustainable and circular society was rewarded. We qualified for inclusion in the Dow Jones Sustainability Index and were named industry leader in the Household Products sector. External factors made 2018 a challenging year, but with a strong customer focus and hard work we strengthened the business for the future.

Earnings trend

In 2018, organic net sales increased 2.6%. In emerging markets, which accounted for 35% of net sales, the increase was 5.9%. The adjusted EBITA margin¹⁾ declined 1.4 percentage points to 10.9%. Price increases, improved product mix, volume growth and cost savings enabled us to offset a large share of the higher raw material and energy costs, which had a negative impact on the margin of 4.2 percentage points.

Measures to increase profitability

We continued to invest in our strong brands and improved our product mix through innovations. During the year, we implemented price increases in all business areas and further price increases are anticipated in 2019. We intensified our efficiency improvements and restructuring of the business and achieved SEK 1,040m in cost savings during the year. These cost savings were primarily a result of measures as part of Tissue Roadmap, operational efficiency improvements, material rationalizations and sourcing savings. To improve profitability and strengthen long-term cost efficiency, a Group-wide cost-savings program was launched in 2018. We also made changes to the company's organizational structure and Executive Management Team.

Innovation for increased customer and consumer value

With a focus on our customers and consumers, we launched successful innovations in all product categories, which strengthened our brands and market positions. Within Incontinence Products, with our globally leading TENA brand we, for example, improved our offering with TENA Complete™, a high-quality and cost-efficient incontinence product that represents an improvement

for both users and caregivers. In the retail trade, we launched TENA Men and lights by TENA with higher absorption, better fit and discretion. Within Medical Solutions, we launched Cutimed® Siltec® Sorbact®, a dressing for chronic wounds. With our globally leading Tork brand, we launched in Professional Hygiene our new Tork Reflex® paper dispenser. Within Consumer Tissue, we launched Lotus Moltonel Sans Tube, our first coreless toilet paper.

Digitalization in all parts of the business

For Essity, digitalization offers many opportunities to optimize and develop all parts of our value chain. In 2018, we robotized and automated processes to improve product quality and efficiency in production, administration and logistics. We are working to develop digital solutions that improve our offering to customers and consumers. Our online sales increased in 2018. Together with the retail trade and e-commerce, we are developing and strengthening our presence in this channel. The target is to have at least the same market share online as offline in all markets and for all product categories.

With a vision of improving well-being

Poor hygiene and sanitation constitute a barrier for the health, livelihood, well-being, and development of millions of people. Our vision is: Dedicated to improving well-being through leading hygiene and health solutions. In 2018, hundreds of millions of people across the world used our products every day and we educated approximately 2.5 million people in hygiene and health during the year. Knowledge is the key to improved hygiene and health, at the same time as this creates business opportunities for us. Through our business model, we also contribute toward the UN Sustainable Development Goals (SDGs) and we were the convening partner for the United Nations Foundation Global Dialogue concerning these goals. Essity supports the UN Global Compact.

Sustainable development

We develop products and services that contribute toward a sustainable and circular society in order to be relevant both today and in the future. One important aspect of this is to offer products and services that help customers and consumers reduce their environmental impact. We endeavor to reduce resource consumption and enable efficient recycling of our products. To achieve this, we need innovation and collaboration. Our Tork PaperCircle™ innovation, the world's first recycling service for paper hand towels, is one example. In 2018, our new targets to reduce greenhouse gas emissions were approved by the Science Based Targets initiative. This means that our climate commitment supports the Paris Agreement's target to keep global warming below 2 degrees Celsius.

“Poor hygiene and sanitation constitute a barrier for the health, livelihood, well-being, and development of millions of people. Our vision is: Dedicated to improving well-being through leading hygiene and health solutions.”

¹⁾ Excluding items affecting comparability.



With the TENA brand, Essity is the global market leader in incontinence products.

Developing our employees and corporate culture

Health and safety is a top priority for Essity. Essity's aim is zero workplace accidents and we are working continuously to nurture a culture where safety is a top priority and where unsafe working conditions and behaviors are immediately reported and resolved. During the year, we updated our Code of Conduct, which describes how we conduct our operations in a responsible manner and helps our employees make correct decisions in their day-to-day work. We conducted our first employee survey as Essity. The survey shows strong employee engagement with particularly high scores in areas such as collaboration, results orientation, team spirit, health and safety.

Looking ahead

We prioritize growth in product categories where we have the highest margins, meaning that Incontinence Products, Medical Solutions, Feminine Care and Professional Hygiene are to account for an increasing share of Essity's net sales in the future. In Consumer Tissue and Baby Care, our priority is to improve margins. In addition to organic growth, our ambition is to grow through

acquisitions. One prioritized area for acquisitions is Medical Solutions, a product category with favorable growth opportunities and high margins, where we – through the acquisition of BSN medical – have created a growth platform that we aim to grow both organically and through acquisitions.

Our ambition is to improve the well-being of 2 billion people every day by 2030. We plan to achieve this through our unique knowledge and insight about the needs of customers and consumers and our ability to transform this into innovative offerings that increase well-being and simplify everyday life for people, regardless of where you live in the world.

Magnus Groth

President and CEO